

Town of Hilton Head Island, South Carolina

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDED
June 30, 2005
Department of Finance

TOWN OF HILTON HEAD ISLAND, SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT



**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

DEPARTMENT OF FINANCE

TOWN OF HILTON HEAD ISLAND,

South Carolina

Comprehensive Annual Financial Report

**Fiscal Year Ended
June 30, 2005**

**Prepared By
Finance Department**

**Shirley A. Freeman,
Director of Finance**

**Steven D. Markiw,
Deputy Director of Finance**

Town of Hilton Head Island, South Carolina

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005

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Introductory Section

TOWN OF HILTON HEAD ISLAND

One Town Center Court, Hilton Head Island, S.C. 29928

(843) 341-4600 Fax (843) 842-7728

<http://www.hiltonheadislandsc.gov>

December 20, 2005

Thomas D. Peeples
Mayor

Kenneth S. Heitzke
Mayor ProTem

Council Members

Willie (Bill) Ferguson
Drew A. Laughlin
W. J. (Bill) Mottel
John Safay
George W. Williams, Jr.

Stephen G. Riley
Town Manager

The Honorable Mayor, Members of the
Town Council, Town Manager, and
Citizens of the Town of Hilton Head
Island:

I am pleased to submit the Comprehensive Annual Financial Report of the Town of Hilton Head Island, South Carolina. South Carolina Code Ann., Section 5-7-240, requires an annual audit of the books of account and financial records of the Town. A complete set of financial statements is presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from any material misstatements.

Cherry Bekaert & Holland, L.L.P., have issued an unqualified ("clean") opinion on the Town of Hilton Head Island's financial statements for the year ended June 30, 2005. The Independent Auditors' Report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the Independent Auditors' Report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A compliments this letter of transmittal and should be read in conjunction with it.

Profile of Hilton Head Island

The Town of Hilton Head Island, incorporated 1983, is a barrier island on the Atlantic coast of South Carolina. The island is located about 30 miles from Savannah, Georgia and about 90 miles from Charleston, South Carolina. Approximately 42 square miles in area, the island is about 12 miles long and 5 miles wide. A four-lane bridge over the Intercoastal Waterway connects the island with the mainland. The Town has jurisdiction over the entire island except for Mariner's Cove, Blue Heron Point, and Windmill Harbor. The Town is empowered to levy a property tax on both real and personal property located within its boundaries.

The Town of Hilton Head Island operates under the council manager-form of government. Policy-making and legislative authority are vested in a governing council (Council) consisting of a mayor and six (6) other members. The Council appoints the government's manager, who in turn appoints the heads of the various departments. The mayor and each member of council shall be elected for a term of office of four (4) years.

The Town was incorporated under a concept of "Limited Services" government for growth management to provide services of land planning and inspections. To keep the cost of this government low and to avoid duplication of services, contractual arrangements were made with the County to provide for the services of police and property tax billing and collections.

The Town Manager submits a proposed budget for the General Fund, Capital Projects Funds and Debt Service Fund to the Town Council sixty (60) days prior to the beginning of the fiscal year. The Budget is legally enacted and adopted by an ordinance of the Town Council. All budgetary transfers are authorized by the Town Manager; however, the Town Council must approve any amendment to the budget, which causes a change in the total expenditures of any fund. The expenditures may not legally exceed appropriations at the fund level except for additional funds received as grants or donations. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgetary controls are maintained by having purchase orders prior to expenditures. Purchase orders under \$5,000 are approved by the appropriate division heads, those up to \$20,000 are approved by the appropriate department heads, those up to \$50,000 Assistant Town Managers, and those over \$50,000 are approved by the Town Manager. A detailed budget and actual expenditures comparison is provided each month to the appropriate division heads, department heads, and Town Manager. A financial statement is presented quarterly to the Town Council.

Local Economy

Tourism is the largest "industry" in the island's economy. There are approximately 2.5 million visitors annually. The island hosts a major sports event in the MCI Heritage Golf Classic. The island has established world-class accommodations, and the tourism industry continues to grow with a peak summer population of 258,696.

One indicator of the economic outlook in the tourism industry on Hilton Head Island has been the accommodations tax. This is a two percent (2%) sales tax on lodging. Except for the 1992 fiscal year, this gross revenue collection has increased each year since its inception in 1984. In this fiscal year, the gross tax collection remained stable with a 5.7% increase of \$205,300 over the 2004 collection for a total of \$3,806,151. With annual visitor expenditures of \$1.5 billion, tourism is a growing industry in Hilton Head Island.

The Town maintains a strong real estate market as evidenced by a 54% increase in the Real Estate Transfer Fee revenue. The fee is .25% of 1% on each real estate transaction in the Town. It generated \$6.7 million this year.

The South Carolina Employment Security Commission reported Hilton Head Island's annual unemployment rate to be 2.2%. This compares to 5.5% for the United States, 6.8% for South Carolina and 4.7% for Beaufort County.

The Town of Hilton Head Island issues over five thousand business licenses annually. The revenue derived from licenses increased by 7.6% over the prior year to \$6.7 million.

Long-term Financial Planning/ Major Initiatives

One of the most significant tools employed by the Town for strategic planning is the long-range financial plan (forecast). All revenues and expenditures in the General Fund are analyzed and forecast five years into the future. The model provides a picture of revenue surpluses or shortfalls the Town would experience if no action were taken, including tax increases or changes in service.

Town Council reviews the ten-year Capital Improvement Program annually. This capital plan includes a \$15 million Beach Renourishment project scheduled to begin in 2006. The Town collects a Beach Preservation Fee of two percent (2%) to fund beach renourishment every six to seven years. Commitment to preserve its natural resources includes the premier attraction of the

beaches. Roadway improvements for major secondary roads and tourist attractions are planned for next fiscal year and the four subsequent years.

The Town has been successful in preserving a high quality of life for its residents.

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hilton Head Island for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the sixteenth consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, the government has to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.


Award for Distinguished Budget

The Town also received the GFOA Award for the Distinguished Budget Presentation for the Town budget for the fiscal year beginning July 1, 2005. It was the first year the Town has received this award. The budget document serves as the Town's primary fiscal policy document.

Acknowledgements

The preparation of this report could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department. I would like to express my appreciation to Steven Markiw, Deputy Director of Finance; Sue Edwards, Accounting Manager; and Kathy Glover, Finance Assistant, who assisted and contributed to its preparation. I would also like to thank the Town Council and the Town Manager for their interest and support of this project and for conducting the business of government in a highly responsible and professional manner. It is a pleasure to work for a group of people who encourage and support sound financial policies and reporting for the Town.

Respectfully submitted,



Shirley A. Freeman
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Hilton Head Island,
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



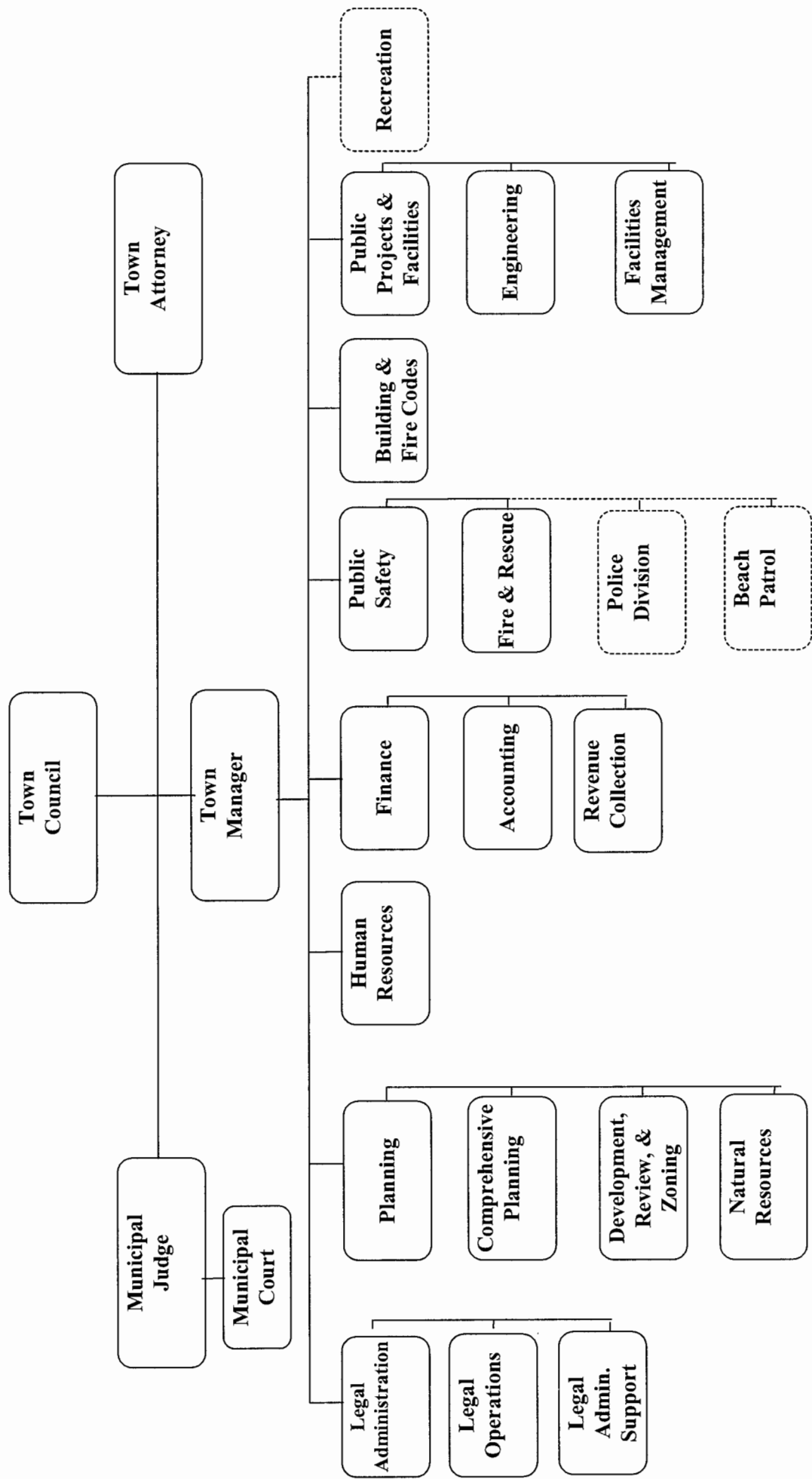
Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

TOWN OF HILTON HEAD ISLAND ORGANIZATIONAL CHART



TOWN OF HILTON HEAD ISLAND

Council - Manager Form of Government

Elected Officials

Years
In Office

Mayor

The Honorable Thomas D. Peeples	14.5
---------------------------------	------

Town Council

Kenneth S. Heitzke - Mayor Pro Tempore	8.0
John D. Safay	3.5
Willie Ferguson	11.5
W. J. (Bill) Mottel	7.0
George W. Williams, Jr.	4.0
Drew A. Laughlin	2.5

Administration

Stephen G. Riley	Town Manager
Shirley A. Freeman	Director of Finance
Frank P. Hodge	Director of Building & Fire Codes
Gregory D. Deloach	Assistant Town Manager/Director of Legal Department
Nancy H. Gasen	Director of Human Resources
Charles O. Hoelle, Jr	Deputy Town Manager/Director of Public Projects & Facilities
Charles F. Cousins	Director of Planning
Thomas M. Fieldstead	Fire Chief



Financial Section



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of Town Council
Town of Hilton Head Island
Hilton Head Island, South Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Hilton Head Island, South Carolina (the "Town") as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2005, and the respective changes in financial position, and the respective budgetary comparison for the General fund and the Tax Increment Financing fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2005 on our consideration of the Town's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

The Honorable Mayor and Members of Town Council
Town of Hilton Head Island
Hilton Head Island, South Carolina
Page 2

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual fund statements and schedules as of and for the year ended June 30, 2005, the statistical tables, and the accompanying schedule of municipal fines, assessments and surcharges for the year ended June 30, 2005 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules, and the schedule of municipal fines, assessments and surcharges have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Beckett & Holland, L.L.P.

Beaufort, South Carolina
November 30, 2005

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

As management of the Town of Hilton Head Island (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Hilton Head Island for the fiscal year ended June 30, 2005. It should be read in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended as an introduction to the Town's basic financial statements. The basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Hilton Head Island.

Government-wide financial statements

The government-wide financial statements are designed to provide the reader of the Town's Comprehensive Annual Financial Report with a broad overview of the financial activities in a manner similar to a private sector business. The government-wide financial statements include the statement of net assets and the statement of activities (Exhibits A and B).

The *statement of net assets* presents information on all the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the Town changed during the current fiscal year. Changes in net assets are recorded in the statement of activities when the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement even though resulting cash flow may be recorded in a future period.

Both government-wide financial statements reflect all of the functions of the Town. These services are supported from taxes, intergovernmental revenues, and charges for services. The Town does not have any business-type activities.

Fund financial statements

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives. Fund financial statements for the Town include only the governmental fund-type. The Town does not use proprietary or fiduciary fund-types.

Governmental Funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements utilize the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than the government-wide statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

The Town maintains eleven governmental funds (Exhibits C through G). Seven are classified as major funds: General Fund, Tax Increment Financing (T.I.F.) District, Accommodations Tax, Real Estate Transfer Fee, Beach Preservation Fee, Debt Service Fund, and the Capital Projects Fund. Four are classified as non-major funds: Impact Fees, Palmetto Electric, Community Development Block Grant (CDBG), and Home Grant. For reporting purposes on the fund financial statements, the special revenue funds are consolidated under the heading Other Governmental Funds. Schedules 4 and 5 of this document provide detailed information regarding these funds.

The Town of Hilton Head Island adopts an annual budget for its General Fund, Capital Improvement Program, Debt Service, and its Tax Increment Financing Fund. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Town Council about which services to provide and how to pay for them.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 19-52 of this report.

Other supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents combining individual fund statements and schedules referred to earlier in connection with non-major governmental funds. Also included are budgetary comparison Schedules of Revenues, Expenditures and Changes in Fund Balances for all non-major special revenue funds with a budget. These statements can be found on pages 12-18 and the schedules can be found on pages 53-65 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Hilton Head Island exceeded its liabilities at the close of the fiscal year by \$132,086,970 (*net assets*). Of this amount, \$39,877,353 (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors in accordance with the Town's fund designation and fiscal policies.
- The Town's total net assets increased by \$20,554,474 during the current fiscal year. The Town's net assets increased as a result of this year's operation.
- As of the close of the current fiscal year, the Town of Hilton Head Island's governmental funds reported combined ending fund balances of \$76,045,281, an increase of \$8,612,383. Approximately seventy-three percent (73%) of this total amount, or \$55,462,991, is available for spending at the government's discretion (*unreserved fund balance*). The majority of this fund balance resides in the Capital Projects Fund.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$11,196,901 of which \$1,059,031 is designated for disaster recovery.
- The Town of Hilton Head Island's total debt decreased by \$2,380,000 during the current fiscal year. The reduction in debt was due to normal repayment of bond principal during the fiscal year.
- The Town of Hilton Head Island has a general obligation bond rating of AA.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET ASSETS

Figure 1

	Governmental Activities	
	2005	2004
Current and other assets	\$ 82,600,831	\$ 72,386,224
Capital assets	177,053,357	168,788,038
Total assets	<u>259,654,188</u>	<u>241,174,262</u>
Long-term liabilities outstanding	122,930,071	124,711,884
Other liabilities	4,637,147	4,929,882
Total liabilities	<u>127,567,218</u>	<u>129,641,766</u>
Net assets:		
Invested in capital assets, net of related debt	83,615,491	79,079,569
Restricted	8,594,126	6,373,187
Unrestricted	39,877,353	26,079,740
Total net assets	<u>\$ 132,086,970</u>	<u>\$ 111,532,496</u>

The largest part of the Town's net assets reflects investments in capital assets (63%) (land, buildings, improvements, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these assets to provide services to the citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

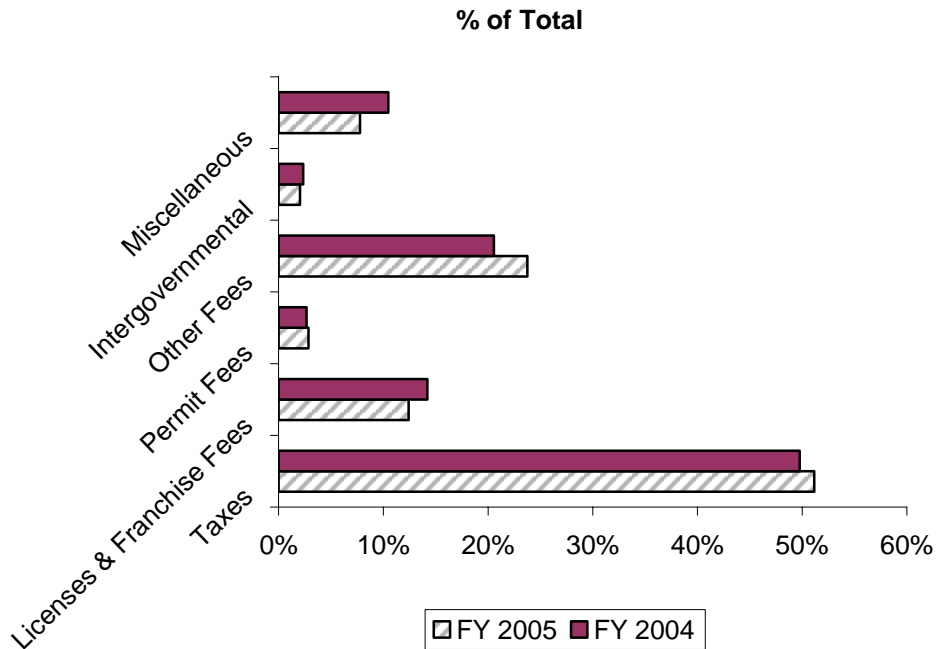
The increase in current assets from the prior year is due almost entirely to the cash and investments on hand at June 30, 2005 from unspent bond proceeds. The normal repayment of bond principal during the current year is the primary reason for the decrease in long-term liabilities. Restricted net assets increased due to debt covenants related to the new bond issues.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

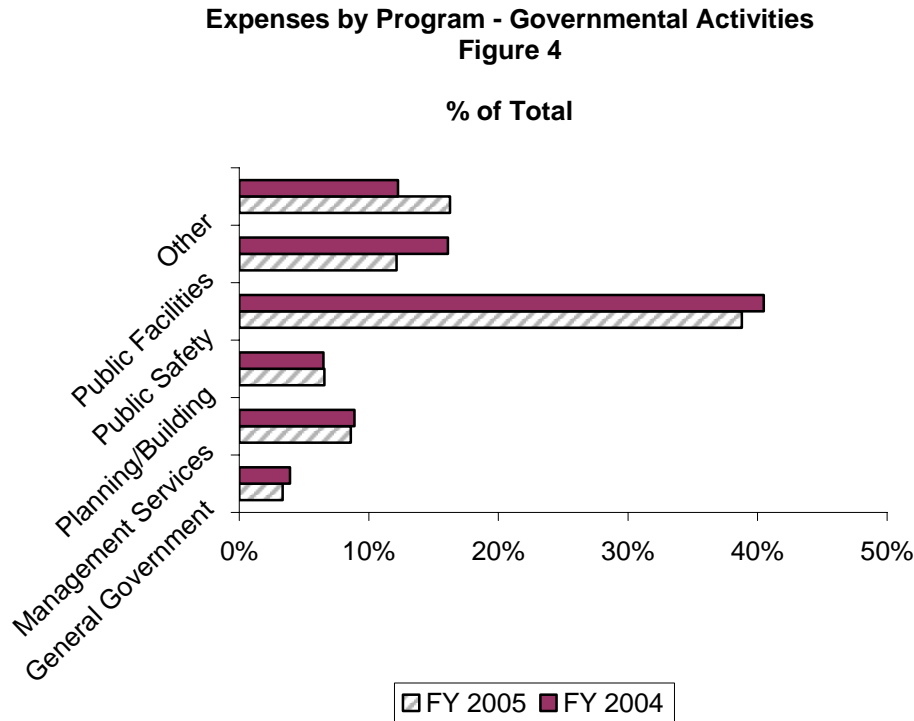
**Changes in Net Assets
Figure 2**

	Governmental Activities	
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 22,979,886	\$ 19,007,797
Operating grants and contributions	155,067	301,855
Capital grants and contributions	944,425	1,104,371
General revenues:		
Property taxes	21,602,549	16,293,172
Other taxes	8,305,770	7,252,510
Other	4,485,496	3,367,094
Total revenues	<u>58,473,193</u>	<u>47,326,799</u>
Expenses:		
Governmental operations	6,855,915	6,619,762
Public safety	14,707,812	14,753,859
Economic development	8,020,829	8,243,753
Culture and recreation	2,924,166	2,517,956
Interest on long-term debt	5,409,997	4,320,669
Total expenses	<u>37,918,719</u>	<u>36,455,999</u>
Increase in net assets	20,554,474	10,870,800
Net assets, July 1	<u>111,532,496</u>	<u>100,661,696</u>
Net assets, June 30	<u>\$ 132,086,970</u>	<u>\$ 111,532,496</u>

**Revenues by Source - Governmental Activities
Figure 3**



**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**



Governmental Activities

The most significant revenues of the governmental activities are taxes \$29,908,319(36%), which include property taxes \$21,602,549 (72%), accommodations tax \$5,314,660 (18%), and hospitality tax \$2,991,110 (10%). Another significant source of revenues is fees \$13,891,832 (24%), which include impact fees \$527,843 (4%), real estate transfer fee \$6,717,848 (48%), beach preservation fee \$3,988,468(29%), electric franchise fee \$1,177,317 (8%), and stormwater fee \$1,480,356 (11%).

The most significant increase in revenues was in real and property taxes \$5,309,377. The majority of the increase was from taxes for the TIF District (\$2,597,872). The second largest increase was in charges for services, which increased \$3,972,089. The majority of this increase was from real estate transfer fees (\$2,353,370), business license and franchise fees (\$539,214) and electric franchise fee (\$1,177,317).

Public Safety (police and fire) expenses are the most significant \$14,707,812 (39%) of all governmental activity expenses, followed by Interest Expense \$5,409,997 (14%), Public Projects and Facilities \$4,549,987 (12%), Management Services \$3,267,610 (9%), Planning/Building and Fire Codes \$2,494,521 (7%), Non-departmental \$1,668,095 (4%), and Accommodations Tax Grants \$1,318,157 (3%). Also included in some of the amounts mentioned above is depreciation expense which is \$2,423,127 (6%) of the total expenses for governmental activities.

Governmental activities expenses increased \$1,462,720 in the current year. The most significant changes in program expenses were as follows:

- **General Government** - legal fees \$82,870, short-term temporary staff \$28,790, consulting services (\$24,893) and townwide employee programs (\$23,055).

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

- **Management Services** - salaries and benefits \$159,498, maintenance contracts \$73,204, supplies and services (\$62,053), and professional fees (\$45,341).
- **Planning/Building & Fire Codes** - salaries and benefits \$180,388, and professional services (\$59,314).
- **Public Safety** - salaries and benefits \$605,952, supplies and services \$259,012, training and meetings \$30,172, and police services \$27,093.
- **Public Projects and Facilities** - salaries and benefits \$67,991, and professional services \$99,260. Non-capital expenditures associated with capital projects increased by \$1.3 million over the previous fiscal year.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town of Hilton Head Island uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund - The General Fund, which is the primary operating fund of the Town, recognized \$25,812,290 in total revenues and \$3,160,783 in other financing sources offset with \$25,257,513 in expenditures. This resulted in an excess of revenues and other financing sources over expenditures of \$3,715,560. Fund Balance at the beginning of the year was \$7,603,794 and, when combined with the current year, resulted in an end of year Fund Balance of \$11,319,354. Of this amount, \$11,196,901 is Unreserved Fund Balance which represents 44.3% of the Town's present expenditure levels.

Tax Increment Financing District - The Tax Increment Financing District Fund recognized \$3,883,262 in total revenues offset with \$348,639 in expenditures and \$1,948,548 in other financing uses. This resulted in an excess of revenues over expenditures and other financing uses of \$1,586,075. Fund Balance at the beginning of the year was \$4,737,877 and, when combined with the current year, resulted in an end of year Fund Balance of \$6,323,952.

Accommodations Tax - The Accommodations Tax Fund recognized \$3,367,077 in total revenues offset with \$2,307,741 in expenditures and \$1,385,865 in other financing uses. This resulted in an excess of expenditures and other financing uses over revenues of \$326,529. Fund Balance at the beginning of the year was \$1,986,059 and, when combined with the current year, resulted in an end of year Fund Balance of \$1,659,530.

Real Estate Transfer Fee - The Real Estate Transfer Fee Fund recognized \$6,782,189 in total revenues offset with \$67,178 in expenditures and \$2,529,477 in other financing uses. This resulted in an excess of revenues over expenditures and other financing uses of \$4,185,534. Fund Balance at the beginning of the year was \$2,766,857 and, when combined with the current year, resulted in an end of year Fund Balance of \$6,952,391.

Beach Preservation Fee - The Beach Preservation Fee Fund recognized \$4,158,325 in total revenues offset with \$2,288,808 in other financing uses. This resulted in an excess of revenues over other financing uses of \$1,869,517. Fund Balance at the beginning of the year was \$9,139,347 and, when combined with the current year, resulted in an end of year Fund Balance of \$11,008,864.

Debt Service Fund - The Debt Service Fund recognized \$4,615,952 in total revenues and \$3,923,546 in other financing sources offset with \$8,456,414 in expenditures. This resulted in an excess of revenues and other financing sources over expenditures of \$83,084. Fund Balance at the beginning of the year was \$7,741,731 and, when combined with the current year, resulted in an end of year Fund Balance of \$7,824,815.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

Capital Projects Fund - The Capital Projects Fund recognized \$8,148,760 in total revenues and \$2,237,387 in other financing sources offset with \$12,667,001 in expenditures. This resulted in an excess of expenditures over revenues and other financing sources of \$2,280,854. Fund Balance at the beginning of the year was \$33,285,200 and, when combined with the current year, resulted in an end of year Fund Balance of \$31,004,346.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The budget expenditure increases totaled \$99,154. This was for legal commitments from the prior year, miscellaneous revenues, and an increase in transfers in. These are summarized as follows:

Expenditure Adjustments:

\$17,500 Increases in personnel salaries
\$42,425 Increases in contractual & consulting services
\$20,302 Increases in supplies
\$18,927 Increases in equipment & vehicles

Revenue Adjustments:

\$7,500 Increase in franchise fee revenues

Transfer Adjustments:

\$91,654 Increases in "transfers in"

Actual revenues for the General Fund were \$2,769,550 more than the adopted budgeted. Also, transfers in were \$70,453 more than the adopted budget. The primary reasons for the favorable variance were higher than anticipated revenues from real and personal property taxes \$1,084,617, business licenses \$675,956, and permit fees \$439,403 as well as revenues received from grants of \$155,067 that were not budgeted.

Actual expenditures for the General Fund were \$957,211 below budgeted expectations. The favorable variance was due to lower personnel costs, contractual services, supply and equipment maintenance costs, capital outlay and grants than was anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Town of Hilton Head Island's investment in capital assets for its governmental activities as of June 30, 2005 amounted to \$177,053,357 (net of accumulated depreciation). These assets include buildings, drainage systems, land, furniture, fixtures, equipment and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Construction in progress of \$8,353,570 in governmental-type activities for drainage, road improvement, pathways, new facilities and existing facilities.
- Through the Land Acquisition Program, the Town purchased \$2,843,849 of land for preservation, reducing development, and public access.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

**Town of Hilton Head Island's Capital Assets
Figure 5**

	Governmental Activities	
	2005	2004
Land	\$ 131,131,588	\$ 128,287,739
Buildings	8,916,346	9,237,147
Parks	1,815,038	871,014
Furniture, fixtures and equipment	1,100,609	1,404,661
Infrastructure	25,100,400	12,697,887
Vehicles	974,802	1,212,894
Construction in progress	8,014,574	15,076,696
Total	\$ 177,053,357	\$ 168,788,038

Additional information on the Town's capital assets can be found in Note 12 of the Basic Financial Statements.

Long-term Debt - As of June 30, 2005, the Town of Hilton Head Island had total bonded debt outstanding of \$120,210,000. Of this, \$74,705,000 is debt supported by the full faith and credit of the Town. The remainder of the Town's debt represents Revenue Bonds and Certificates of Participation.

**Town of Hilton Head Island's Outstanding Debt
Figure 6**

	Governmental Activities	
	2005	2004
General Obligation Bonds	\$ 74,705,000	\$ 76,285,000
Revenue Bond	35,500,000	35,775,000
Certificates of Participation	10,005,000	10,530,000
Total	\$ 120,210,000	\$ 122,590,000

The normal repayment of bond principal during the past fiscal year decreased the Town of Hilton Head Island's total debt by \$2,380,000 (2%).

As mentioned in the financial highlights section of this document, the Town of Hilton Head Island maintained its AA bond rating from Moody's Investor Service, its Aaa³ rating from Standard and Poor's Corporation, and its AA Fitch Ratings. This bond rating is a clear indication of the sound financial condition of the Town of Hilton Head Island.

General statutes limit the amount of general obligation debt that a unit of government can issue up to eight percent (8%) of the total assessed value of taxable property located within that government's boundaries. The Town may incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote in a referendum as authorized by law. The legal debt margin for Town of Hilton Head Island is \$39,602,357. The Town has \$18,200,000 in bonds issued at June 30, 2005, which are applicable to this cap.

**TOWN OF HILTON HEAD ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

Additional information regarding the Town of Hilton Head Island's long-term debt can be found in Note 10 on pages 35-47 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors - The following key economic indicators reflect the growth and prosperity of the Town.

- Low unemployment. The Town of Hilton Head Island's unemployment rate of 2.2% is well below the County average of 4.7% and the State average of 6.8%.
- Approximately 2.5 million visitors annually to the Hilton Head Island Area providing in excess of \$1.5 billion dollars to the local economy.
- 43% of all licensed island enterprises are retail and service oriented companies.
- Tourist lodging facilities on the island pay nearly \$20.0 million in property taxes to Beaufort County.
- Tourism in the Hilton Head Island/Bluffton area employs over 10,000 people living both on and off the island.
- Sales tax paid by visitors is approximately \$47.0 million annually.

Budget Highlights for the Fiscal Year Ending June 30, 2006:

Governmental Activities - The General Fund's revenues for fiscal year 2006 are budgeted at \$27,466,550, an increase of \$1,251,826 or 5% over the prior year's budgeted revenues. Revenues from taxes, business licenses, and franchise fees are expected to lead the increase in budgeted revenue. The Town will use these increases in revenues to finance programs currently in place.

A balanced budget is required by South Carolina law. Accordingly, General Fund expenditures are budgeted to revenues at \$27,466,550. The largest increments are in employee compensation, including funding compensation and benefits adjustments.

The Capital Improvements Fund appropriation is \$38,937,000. The majority of the expenditures are budgeted for beach maintenance which accounts for 40% of the capital budget with the largest component (\$15.3 million) earmarked for beach renourishment.

The Debt Service Fund provides for the payment of principal and interest payments totaling \$10,517,000.

The assessment rate for the fiscal year beginning July 1, 2005 on taxable property located within the Town of Hilton Head Island was established at 19.0 mills upon each one dollar of taxable property in the Town of Hilton Head which is a 3.3 mill reduction from the prior fiscal year. The decrease results from property reassessments performed in September 2003.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Hilton Head Island, One Town Center Court, Hilton Island, South Carolina, 29928.



Basic Financial Statements

TOWN OF HILTON HEAD ISLAND
STATEMENT OF NET ASSETS
JUNE 30, 2005

Exhibit "A"

	Governmental Activities
ASSETS	
Cash	\$ 13,486,376
Investments	24,227,406
Accounts Receivable	3,690,196
Due from Employees	98,515
Due from Other Governments	3,720,358
Other Assets	2,713,938
Restricted Assets:	
Cash	7,338,965
Investments	27,325,077
Capital Assets:	
Non Depreciable	139,146,162
Depreciable	37,907,195
Total assets	259,654,188
LIABILITIES	
Accounts Payable	1,564,455
Payable to Hilton Head Chamber of Commerce Visitor & Convention Bureau	327,186
Accrued Payroll and Related Payables	675,672
Due to Other Governments	749,382
Unearned Revenue	45,283
Payable from Restricted Assets:	
Irrigation and Pool Bonds Payable	166,800
Court Bonds Payable	51,564
Performance Bonds Payable	261,270
Interest Payable	795,535
Long-Term Liabilities:	
Due Within Less than One Year	7,299,092
Due Within More than One Year	115,630,979
Total liabilities	127,567,218
NET ASSETS	
Capital Assets Net of Related Debt	83,615,491
Debt Service	8,594,126
Unrestricted	39,877,353
Total net assets	\$ 132,086,970

TOWN OF HILTON HEAD ISLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Exhibit "B"

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary government:					
Governmental activities:					
General Government	\$ 2,908,087	\$ 571,933	\$ 155,067	\$ -	(2,181,087)
Management Services	3,267,610	6,886,643	-	-	3,419,033
Planning/Building and Fire Codes	2,494,521	2,194,146	-	-	(300,375)
Public Safety	14,707,812	992,708	-	-	(13,715,104)
Public Projects and Facilities	5,526,308	5,816,608	-	944,425	1,234,725
Accommodations Tax Grants	1,318,157	-	-	-	(1,318,157)
Visitor and Convention Bureau	989,584	-	-	-	(989,584)
Administrative	1,296,642	6,717,848	-	-	5,421,206
Interest	5,409,997	-	-	-	(5,409,997)
Total governmental activities	37,918,719	22,979,886	155,067	944,425	(13,839,341)
Total primary government	\$ 37,918,719	\$ 22,979,886	\$ 155,067	\$ 944,425	\$ (13,839,341)
General revenues:					
Property Taxes					21,602,549
Other Taxes					8,305,770
Intergovernmental (Unrestricted State Shared Revenue)					1,197,579
Investment Income					1,203,427
Miscellaneous					2,084,490
Total general revenues					34,393,815
Change in net assets					20,554,474
Net assets - beginning					111,532,496
Net assets - ending					\$ 132,086,970

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

Exhibit "C"

	General	Tax Increment Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS									
Cash	\$ 4,622,795	\$ -	\$ -	\$ 6,274,879	\$ -	\$ -	\$ 2,365,563	\$ 223,139	\$ 13,486,376
Investments	5,664,068	-	1,093,106	-	9,634,970	3,902,237	3,933,025	-	24,227,406
Accounts Receivable	998,782	-	-	-	1,447,446	-	1,243,968	-	3,690,196
Due from Employees	98,515	-	-	-	-	-	-	-	98,515
Due from Other Funds	309,274	-	-	-	10,214	821,796	308,826	59,128	1,509,238
Due from Other Governments	1,310,853	214,162	1,090,620	688,286	-	-	416,437	-	3,720,358
Restricted Assets:									
Cash	261,270	6,248,495	-	-	-	806,758	-	22,442	7,338,965
Investments	655,052	-	-	-	-	2,294,399	24,375,626	-	27,325,077
Total assets	\$ 13,920,609	\$ 6,462,657	\$ 2,183,726	\$ 6,963,165	\$ 11,092,630	\$ 7,825,190	\$ 32,643,445	\$ 304,709	\$ 81,396,131
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts Payable	\$ 367,156	\$ -	\$ 77,650	\$ -	\$ 21,903	\$ 375	\$ 825,093	\$ 271,278	\$ 1,564,455
Accrued Payroll and Employee Payable	675,672	-	-	-	-	-	-	-	675,672
Due to Other Governments	749,382	-	-	-	-	-	-	-	749,382
Due to Other Funds	306,402	138,705	119,360	10,774	61,863	-	813,006	59,128	1,509,238
Deferred Revenue	23,009	-	-	-	-	-	-	22,274	45,283
Payable from restricted assets:									
Irrigation and Pool Bonds Payable	166,800	-	-	-	-	-	-	-	166,800
Court Bonds Payable	51,564	-	-	-	-	-	-	-	51,564
Performance Bonds Payable	261,270	-	-	-	-	-	-	-	261,270
Payable to Hilton Head Chamber of Commerce	-	-	-	-	-	-	-	-	-
Visitor and Convention Bureau	-	-	327,186	-	-	-	-	-	327,186
Total liabilities	2,601,255	138,705	524,196	10,774	83,766	375	1,639,099	352,680	5,350,850
Fund balances:									
Reserved:									
Encumbrances	122,453	-	435,806	-	-	-	4,735,575	-	5,293,834
Debt Service	-	-	-	-	-	7,741,731	848,402	-	8,590,133
Land and Park Projects	-	-	-	-	-	-	1,356,827	-	1,356,827
Fund Balance - reserved - other	-	-	-	-	-	-	4,041,467	-	4,041,467
Unreserved:									
Designated for Disaster Recovery	1,059,031	-	-	-	-	-	-	-	1,059,031
Designated for Hospitality Tax Purpose	-	-	-	-	-	-	288,969	-	288,969
Undesignated	10,137,870	6,323,952	1,223,724	6,952,391	11,008,864	83,084	19,733,106	-	55,462,991
Reported in nonmajor:									
Special Revenue	-	-	-	-	-	-	-	(47,971)	(47,971)
Total fund balances	11,319,354	6,323,952	1,659,530	6,952,391	11,008,864	7,824,815	31,004,346	(47,971)	76,045,281
Total liabilities and fund balances	\$ 13,920,609	\$ 6,462,657	\$ 2,183,726	\$ 6,963,165	\$ 11,092,630	\$ 7,825,190	\$ 32,643,445	\$ 304,709	\$ 81,396,131

The notes to the financial statements are an integral part of this statement.

TOWN OF HILTON HEAD ISLAND
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005

Exhibit "D"

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds	\$ 76,045,281
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	177,053,357
Bond issue costs are not a financial resource, therefore, are not reported in the funds.	1,294,112
Losses on refunding are not a financial resource, therefore, are not reported in the funds.	1,419,826
Accrued interest is not due and payable in the current period, therefore, is not reported in the funds.	(795,535)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(122,930,071)</u>
Net assets of governmental activities	<u>\$ 132,086,970</u>

TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

Exhibit "E"										
	Tax									
	General	Incremental Financing District	Accommodations Tax	Real Estate Transfer Fee	Beach Preservation Fee	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds	
Revenues:										
Real and Personal Property Taxes	\$ 11,833,517	\$ 3,777,553	\$ -	\$ -	\$ -	\$ 4,349,527	\$ 1,641,952	\$ -	\$ -	21,602,549
Accommodations Tax	1,991,048	-	3,323,612	-	-	-	-	-	-	5,314,660
Hospitality Tax	-	-	-	-	-	-	2,991,110	-	-	2,991,110
Business Licenses and Franchises	7,261,596	-	-	-	-	-	-	-	-	7,261,596
Permits	1,663,283	-	-	-	-	-	-	-	-	1,663,283
Impact Fees	-	-	-	-	-	-	-	527,843	-	527,843
Real Estate Transfer Fees	-	-	-	6,717,848	-	-	-	-	-	6,717,848
Beach Preservation Fees	-	-	-	-	3,988,468	-	-	-	-	3,988,468
Electric Franchise Fee	-	-	-	-	-	-	-	1,177,317	-	1,177,317
Stormwater Fees	-	-	-	-	-	-	1,480,356	-	-	1,480,356
State Shared Funds	916,929	-	-	-	-	-	280,650	-	-	1,197,579
Donations	25	-	-	-	-	-	19,000	-	-	19,025
Other Grants	155,067	-	-	-	-	-	944,425	-	-	1,099,492
Miscellaneous Revenue	1,854,972	-	-	-	-	-	373,667	-	-	2,228,639
Investment Income	136,853	105,709	43,465	64,341	169,857	266,425	417,600	177	1,203,427	
Total revenues	25,812,290	3,883,262	3,367,077	6,782,189	4,158,325	4,615,952	8,148,760	1,705,337	58,473,192	
Expenditures:										
Current:										
General Government	1,233,212	-	-	-	-	-	-	-	-	1,233,212
Management Services	3,166,953	-	-	-	-	-	-	-	-	3,166,953
Planning/Building and Fire Codes	2,481,374	-	-	-	-	-	-	-	-	2,481,374
Public Safety	13,766,856	-	-	-	-	-	-	-	-	13,766,856
Public Projects and Facilities	2,467,434	-	-	-	-	-	836,833	-	-	3,304,267
Non-Departmental	1,668,095	-	-	-	-	-	-	-	-	1,668,095
Accommodations Tax Grants	-	-	1,318,157	-	-	-	-	-	-	1,318,157
Visitor and Convention Bureau	-	-	989,584	-	-	-	-	-	-	989,584
Administrative	-	1,440	-	67,178	-	8,963	-	1,219,061	-	1,296,642
Capital Outlay	375,866	-	-	-	-	-	11,123,792	-	-	11,499,658
Debt Service:										
Principal	82,881	-	-	-	-	3,329,969	326,149	-	-	3,739,029
Interest	14,842	347,199	-	-	-	4,583,638	316,261	-	-	5,261,940
Fiscal Charges	-	-	-	-	-	-	11,328	-	-	11,328
Debt Issue Costs	-	-	-	-	-	533,814	52,638	-	-	586,452
Total expenditures	25,257,513	348,639	2,307,741	67,178	-	8,456,414	12,667,001	1,219,061	50,323,547	
Excess (deficiency) of revenues over (under) expenditures	554,777	3,534,623	1,059,336	6,715,011	4,158,325	(3,840,462)	(4,516,241)	486,276	8,149,645	
Other financing sources (uses)										
Premium on Bond Issuance	-	-	-	-	-	860,673	-	-	-	860,673
Payment to Escrow Agent	-	-	-	-	-	(29,632,606)	(1,450,329)	-	-	(31,082,935)
Transfers In	3,160,783	-	-	-	-	3,065,479	4,793,426	-	-	11,019,688
Transfers Out	-	(1,948,548)	(1,385,865)	(2,529,477)	(2,288,808)	-	(2,160,710)	(706,280)	(11,019,688)	
Long Term Debt Issued	-	-	-	-	-	29,630,000	1,055,000	-	-	30,685,000
Total other financing sources (uses)	3,160,783	(1,948,548)	(1,385,865)	(2,529,477)	(2,288,808)	3,923,546	2,237,387	(706,280)	462,738	
Net change in fund balances	3,715,560	1,586,075	(326,529)	4,185,534	1,869,517	83,084	(2,280,854)	(220,004)	8,612,383	
Fund balance - beginning	7,603,794	4,737,877	1,986,059	2,766,857	9,139,347	7,741,731	33,285,200	172,033	67,432,898	
Fund balance - ending	11,319,354	6,323,952	1,659,530	6,952,391	11,008,864	7,824,815	31,004,346	(47,971)	76,045,281	

TOWN OF HILTON HEAD ISLAND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES

Exhibit "F"

YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 8,612,383
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	8,265,319
--	-----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	1,781,813
--	-----------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	1,894,959
---	-----------

Change in net assets of governmental activities	<u>\$ 20,554,474</u>
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TOWN OF HILTON HEAD ISLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2005

Exhibit "G"

	General Fund			Tax Increment Financing			Variance With Final Positive (Negative)
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	
REVENUES							
Real and Personal Property Taxes	\$ 10,748,900	\$ 10,748,900	\$ 11,833,517	\$ 1,084,617	\$ 1,318,200	\$ 3,777,553	\$ 2,459,353
Accommodations Tax	1,818,000	1,818,000	1,991,048	173,048	-	-	-
Business Licenses and Franchises	6,585,640	6,585,640	7,261,596	675,956	-	-	-
Permits	1,223,860	1,223,860	1,663,263	439,403	-	-	-
State Shared Funds	885,670	885,670	916,929	31,259	-	-	-
Donations	100	100	25	(75)	-	-	-
Other Grants	-	-	155,067	155,067	-	-	-
Miscellaneous Revenue	1,690,550	1,690,550	1,854,972	164,422	-	-	-
Investment Income	90,000	90,000	135,853	45,853	-	105,709	105,709
Total revenues	23,042,740	23,042,740	25,812,290	2,769,550	1,318,200	3,883,262	2,565,062
EXPENDITURES							
Current:							
General Government	1,143,570	1,149,570	1,233,212	(83,642)	-	-	-
Management Services	3,349,110	3,361,760	3,166,953	194,807	-	-	-
Planning/Building and Fire Codes	2,879,570	2,886,170	2,481,374	404,796	-	-	-
Public Safety	13,768,260	13,812,941	13,766,856	46,085	-	-	-
Public Projects and Facilities	2,652,400	2,658,696	2,467,434	191,262	-	-	-
Non-Departmental	1,751,045	1,755,045	1,668,095	86,950	-	1,440	(1,440)
Administrative	-	-	-	-	-	-	-
Capital Outlay	471,615	490,542	375,866	114,676	-	-	-
Debt service:							
Principal	85,000	85,000	82,881	2,119	-	-	-
Interest	15,000	15,000	14,842	158	347,200	347,199	1
Total expenditures	26,115,570	26,214,724	25,257,513	957,211	347,200	346,639	(1,439)
Excess (deficiency) of revenues over (under) expenditures	(3,072,830)	(3,171,984)	554,777	3,726,761	971,000	3,534,623	2,563,623
OTHER FINANCING SOURCES (USES)							
Bond Issue	-	-	-	-	1,931,000	-	(1,931,000)
Transfers In	-	3,090,330	3,160,763	70,453	-	-	-
Transfers Out	-	-	-	-	(2,902,000)	(1,948,546)	953,452
Appropriated Fund Balance	-	81,654	-	(81,654)	-	-	-
Total other financing sources (uses)	3,072,830	3,171,984	3,160,763	(11,201)	(971,000)	(1,948,546)	(977,546)
Net change in fund balances	-	-	3,715,560	3,715,560	-	1,586,075	1,586,075
FUND BALANCE - BEGINNING			7,603,794			4,737,877	
FUND BALANCE - ENDING			\$ 11,319,354			\$ 6,323,952	

The notes to the financial statements are an integral part of this statement.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Hilton Head Island, South Carolina (*Town*) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies affecting their presentation.

Reporting Entity

This report includes all of the funds of the Town of Hilton Head Island, South Carolina (the primary government), which was incorporated May 18, 1983, and the Town of Hilton Head Island Public Facilities Corporation which is a component unit of the Town. The Town's Charter provides for a Council-Manager form of government in accordance with Home Rule Act Number 283.

Component Unit

In conformity with accounting principles generally accepted in the United States of America (GAAP), the financial statements of the Town of Hilton Head Island Public Facilities Corporation are shown as a blended unit as the administration and governing bodies are primarily the same. The component unit provides services entirely to the Town and was created to facilitate the issuance of debt for acquisition of the Town's administration facilities.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities, generally, are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties. The Town does not report any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function; and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds of which all are considered government funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Town reports the following major governmental funds:

General Fund. The General Fund is used to account for all financial sources except those required to be accounted for in another fund.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (continued)
 Basis of Presentation – Fund Financial Statements (continued)

Tax Increment Financing District - Special Revenue Fund. This fund is used to account for incremental taxes charged to individuals. These revenues are restricted to expenditures for specific purposes.

Beach Preservation Fee - Special Revenue Fund. This fund is used to account for beach preservation fees. These revenues are restricted to expenditures for specific purposes.

Real Estate Transfer Fee – Special Revenue Fund. The fund accounts for a fee equal to one quarter of one percent (.0025) of the purchase price upon the transfer of any real property situated within the corporate limits of the Town. These revenues are restricted to expenditures for specific purposes.

Accommodations Tax Fund – Special Revenue Fund. This fund is used to account for the Town's receipts from the two percent (2%) tax levied on rentals of transient accommodations within the corporate limit. These revenues are restricted to expenditures for specific purposes.

The Debt Service Fund. This fund is used for accumulating resources for the payment of interest and principal on general long-term obligation debt.

The Capital Projects Fund. This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Town reports the Impact Fees, the Community Development Block Grants, Palmetto Electric Franchise Fees, and the Home Grant Special Revenue funds as nonmajor governmental funds.

Measurement Focus and Basis of Accounting

All funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (continued)
 Measurement Focus and Basis of Accounting (continued)

Taxpayer-assessed income and gross receipts are recognized as revenue when in the hands of intermediary collecting governments (state shared revenues, sales and accommodation tax revenue). Business license revenues are recognized when measurable and available. Property tax revenues are recognized when received or available for payment of liabilities of the current period. The Town considers property taxes as available if collected within 60 days after year-end.

Property taxes for the year ended June 30, 2005, includes an accrual for property taxes collected 60 days after June 30. Property taxes are levied based on assessed values and the property tax calendar as follows:

Property Tax Calendar

Assessment date	2003
Property tax due	March 16
Delinquent date	March 17
Levy date	May 15-30
Tax sale	First Monday in October

The County has no specific lien date.

It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB pronouncements in its accounting and reporting practices for its government-wide financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the general fund, tax increment financing special revenue fund, debt service fund, and capital project fund. Budgets for the aforementioned funds are prepared in accordance with GAAP. The Town follows these procedures in establishing budgetary data reflected in these financial statements:

- 1) The Town Manager submits to Town Council a proposed operating budget for the General Fund, Tax Increment Financing Special Revenue Fund, Capital Projects Fund, and Debt Service Fund for the year which includes proposed expenditures and the means of financing them.
- 2) Public hearings are held for taxpayers' comments for the General Fund budget, Tax Increment Financing Special Revenue Fund budget, Capital Projects Fund budget and Debt Service budget.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (continued)
Budgets and Budgetary Accounting (continued)

- 3) The budgets are legally enacted and adopted by Town Council.
- 4) Budgetary transfers between departments may be authorized by the Town Manager; however, any revisions that alter the total expenditures of any fund must be approved by Town Council.

The expenditures may not legally exceed appropriations at the fund level except for additional funds received as grants or donations. Appropriations lapse at year-end.

Presented budgeted amounts are as originally adopted, transferred by Town Manager, or amended by Town Council. The amendments to the budget were:

General Fund

Expenditures:

General Government:

Human Resources:

Increase in Consulting Services	\$ 10,000
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Management Services:

Finance - Business License :

Increase in Personnel Salaries	10,000
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Legal - Operations:

Increase in Maintenance Contracts/Fees	1,500
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Increase in Travel	1,150
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Planning/Building & Fire Codes:

Building & Fire Codes:

Increase in Personnel Salaries	7,500
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Public Safety:

Fire and Rescue - Logistics & Maintenance:

Increase in Uniforms & Protective Gear	15,100
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Increase in Medical/Rescue Supplies	2,515
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Increase in Tools/Equipment	2,687
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Fire and Rescue - Training:

Increase in Meetings & Conferences	1,400
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Increase in Professional Services	22,079
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Public Projects and Facilities:

Engineering:

Increase in Consulting Service/Traffic Control	4,939
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Facility Management:

Increase in Beach Park Maintenance	1,357
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Capital Outlay:

Management Services:

Legal - Operations:

Increase in Specialized Equipment	18,927
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Total Expenditures Increase	\$ 99,154
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Other Financing Sources:

Increase in Transfers In	\$ 17,500
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Total Other Financing Sources Increase	\$ 17,500
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TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)
Budgets and Budgetary Accounting (continued)

Capital Projects Fund

Revenues:

Stormwater Utility Bond	\$ 547,311
Stormwater Utility Fees	94,000
Hospitality Tax Bond	1,696,433
Hospitality Tax	395,860
County Bond	95,472
Funds from Prior Years	926,716
Other Revenue	25,000
Total Revenues Increase	<u>\$ 3,780,792</u>

Expenditures:

Beach Maintenance:	
Increase in Beach Maintenance/Renourishment	\$ 637,785
Land Acquisition:	
Increase in Land Acquisition	2,765,000
Drainage Improvements:	
Increase in North Forest Beach	129,472
Increase in Ashmore Tract Ditch	245,937
Increase in Northridge	16,634
Increase in Folly Field	155,268
Road Improvements:	
Increase in Fire and Rescue Emergency Access Points	41,500
Increase in Pedestrian Crosswalks/Refuges	33,733
Increase in Traffic Signal Mast Arms	50,782
Increase in Town Roads Resurfacing	225,000
Pathways:	
Increase in Muddy Creek Road	16,969
Park Development:	
Increase in Barker Field Expansion	758,430
Increase in Islanders Beach Park Parking Expansion	137,960
Increase in Fish Haul Tract Park and Beach Park	362,735
Increase in Greenshell/Neighborhood	20,155
Increase in Parks Upgrades	25,256
Facilities Improvements:	
Increase in Fire and Rescue Maintenance & Training Facility/Office	80,000
Increase in Fire Station Renovations	12,296
Increase in County Drop-Off Center Replacement	95,472
Increase in Apparatus & Vehicles Replacement/Refurbishment	23,500
Increase in Demolition of Structures	22,821
Public Facilities:	
Increase Fire Station #4 Replacement	1,472,637
Increase in Fire and Rescue Dispatch Center	462,360
Total Expenditures Increase	<u>\$ 7,791,702</u>

Other Financing Sources:

Increase in Transfers In	\$ 4,010,910
Total Other Financing Sources	<u>\$ 4,010,910</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (continued)
Budgets and Budgetary Accounting (continued)

Tax Increment Financing - Special Revenues Fund

Revenues:

Real and Personal Property Taxes	\$ 1,318,200
Total Revenues Increase	<u>\$ 1,318,200</u>

Expenditures:

Interest	\$ 347,200
Total Expenditures Increase	<u>\$ 347,200</u>

Transfers Out:

Transfers to General Fund	\$ (10,000)
Transfers to Capital Improvements Program Fund	(2,892,000)
Total Transfers Out	<u>\$ (2,902,000)</u>

Other Financing Sources:

Proceeds from Bonds	\$ 1,931,000
Total Other Financing Sources	<u>\$ 1,931,000</u>

Debt Service Fund

Revenues:

Real and Personal Property Taxes	\$ (24,504)
Miscellaneous Revenue	447,970
Investment Income/Miscellaneous	24,500
	<u>\$ 447,966</u>

Expenditures:

Principal	\$ 447,966
Total Expenditures Increase	<u>\$ 447,966</u>

Encumbrances

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation is employed as an extension of formal budgetary integration in the general fund and capital projects fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

The Accommodations Tax Fund committee prepares a list of grants approved each year based on collections for the calendar year. The amount of approved grants at June 30, 2005, which were underway by July 1, is shown as an encumbrance in that fund.

Investments

Investments are stated at fair value which is equivalent to market value for all investments held in the general fund, special revenue funds, capital projects fund, and debt service fund. All changes in fair value are recorded as investment income.

Due to and from Other Funds/ Internal Balances

Interfund receivables and payables in the fund financial statements and internal balances in the government-wide financial statements arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the government as fixed assets including, but not limited to, land, buildings, machinery and equipment with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. The only exception to the \$5,000 threshold is software acquisition. Software and other associated intangibles with an initial individual cost of \$50,000 or more and an estimated useful life in excess of two years is capitalized.

Any donations of capital assets are recorded at fair market value at date of donation. Purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's lives are not capitalized. Capital assets of the Town are depreciated over their useful lives on a straight-line basis as follows:

Building	25-30 years
Infrastructure	25 years
Vehicles	8-15 years
Furniture, fixtures, and equipment	5-20 years
Land	20-30 years
Roads	25-30 years
Waterway	30 years
Dams	30-50 years
Software	10 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The Town has a policy to accrue compensated absences for employees when the obligation relating to the employee's rights to receive compensation is attributable to the employee's services already rendered, when the rights vest and accumulate and when the payment is payable. Vacation pay meets the above criteria for accrual, whereas sick pay does not. Sick pay does not vest until an employee reaches retirement age. In accordance with GASB Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulative rights to receive sick pay benefits.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1. Summary of Significant Accounting Policies (continued)
Compensated Absences (continued)

The sick leave termination benefit for employees who have a minimum of five years consecutive employment and are terminated for non-disciplinary reasons is computed based on a percentage of actual sick leave. The sick leave termination benefit is paid as a taxable lump-sum bonus at termination. Employees who were older than age 55 on July 1, 2000, and were employed by the Town were grandfathered under the prior plan of receiving their sick leave as a retirement benefit. The grandfathered employees are eligible for the greater of the sick leave termination benefit or the sick leave retirement benefit. Sick leave was not accrued other than for the termination or retirement benefit, but the maximum benefits payable from services prior to June 30, 2005 would be \$1,187,986 excluding fringe benefits.

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants for goals, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Note 2. Cash and Investments

The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amount:

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents	Restricted Investments	Total
Governmental Activities:					
General Fund	\$ 4,622,795	\$ 5,664,068	\$ 261,270	\$ 655,052	\$ 11,203,185
Accommodations Tax	-	1,093,106	-	-	1,093,106
Beach Preservation Fees	-	9,634,970	-	-	9,634,970
Tax Increment Financing	-	-	6,248,495	-	6,248,495
Home Grant	-	-	22,442	-	22,442
Real Estate Transfer Fee	6,274,879	-	-	-	6,274,879
Capital Projects	2,365,563	3,933,025	-	24,375,626	30,674,214
Debt Service	-	3,902,237	806,758	2,294,399	7,003,394
Town Franchise Fees	223,139	-	-	-	223,139
	<u>\$ 13,486,376</u>	<u>\$ 24,227,406</u>	<u>\$ 7,338,965</u>	<u>\$ 27,325,077</u>	<u>\$ 72,377,824</u>

Deposits:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure, the Town's deposits may not be returned to the Town. The Town maintains cash bank accounts with several banks. At June 30, 2005, the \$49,852,688 carrying balance and \$51,032,705 bank balance were held in various banks of which \$422,438 was covered by Federal depository insurance. The remainder of the bank's collected balance is secured by government securities held by the Town's Agent, the bank, in the Town's name. A sum of \$2,884 is held in petty cash funds of the Town. Of the total carrying cash balance of \$49,855,572 in cash, \$7,338,965 has been restricted.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 2. Cash and Investments (continued)

Investments

At June 30, 2005, the Town had investments and maturities as shown below:

	Fair Value	Less Than 1 Year	1 - 5 Years
Money Market Funds	\$ 42,154,998	\$ 42,154,998	\$ -
U.S. Agency Discount Notes	9,397,485	8,898,890	498,595
	<u>\$ 51,552,483</u>	<u>\$ 51,053,888</u>	<u>\$ 498,595</u>

In accordance with the provisions of two South Carolina Statutes, S.C. Code Ann. § 6-5-10 and S.C. Code Ann. § 11-1-60, the Town is authorized to invest in the following instruments:

- Government National Mortgage Association (GNMA)
- Federal Home Loan Banks (FHLB)
- Small Business Administration (SBA)
- U.S. Maritime Administration (MA)
- Tennessee Valley Authority (TVA)
- U.S. Export-Import Bank (Eximbank)
- Farmers Home Administration (FHA)
- Federal Financing Bank (FFB)
- General Services Administration (GSA)
- Department of Housing and Urban Development (HUD)
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation.

The Town's primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety** – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a. Credit Risk – The Town will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities in compliance with the provisions of South Carolina statutes as bulleted in the aforementioned section.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 2. Cash and Investments (continued)

- b. Interest Rate Risk – The Town will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; thereby, avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
3. **Yield** – The Town's cash management portfolio shall be designed with the objective of regularly meeting or exceeding the state investment pool, a money market mutual fund provided through Town's current banking institution or the average rate on Fed funds, whichever is higher. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein, and prudent investment principles.

At June 30, 2005 the Town had debt securities and quality ratings as shown below:

	Fair Value	Quality Rating Aaa (Moody's)	Unrated
Money Market Account	\$ 42,154,998	\$ -	\$ 42,154,998
U.S. Agency Discount Notes	9,397,485	9,397,485	-
	<u>\$ 51,552,483</u>	<u>\$ 9,397,485</u>	<u>\$ 42,154,998</u>

Unrated investments (overnight funds) are invested in a money market "account" vs. a true "fund." That is, the funds are held by Wachovia Bank in an interest-bearing depository account. As such, they are collateralized per Section 6-5-15 of the SC Code which outlines securing bank deposits.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 3. Receivables

At June 30, 2005, the Town's receivable balances were as follows:

	Government-wide Financial Statements			
	Fund Financial Statements			Total
	General Fund	Beach Preservation Fee	Capital Project Fund	
Receivables:				
EMS Fees	\$ 612,819	\$ -	\$ -	\$ 612,819
Local accommodations taxes	711,170	-	-	711,170
Other receivables	8,639	-	-	8,639
Business license revenues	59,060	-	-	59,060
Beach preservation fees	-	1,447,446	-	1,447,446
Hospitality taxes/Other	-	-	1,243,968	1,243,968
Gross receivables	1,391,688	1,447,446	1,243,968	4,083,102
Less: allowance for uncollectibles	392,906	-	-	392,906
Net Receivables	<u>\$ 998,782</u>	<u>\$ 1,447,446</u>	<u>\$ 1,243,968</u>	<u>\$ 3,690,196</u>
Receivables from Employees:				
Cobra Insurance	\$ 1,627	\$ -	\$ -	\$ 1,627
Computer Purchases*	96,888	-	-	96,888
Total Receivables from Employees	<u>\$ 98,515</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,515</u>

*The computer loans are repaid over three (3) years with no interest due.

Note 4. Interfund Balances and Activities

Amounts due from/to funds resulted from interfund goods and services provided or reimbursable expenditures/expenses incurred on or before June 30, 2005 for which payment was received/made after June 30, 2005.

Interfund receivables and payable balances at June 30, 2005 are as follows:

	Due From						
	General Fund	Tax Increment Financing District	Accom. Tax Fund	Real Estate Transfer Fees	Beach Preservation Fees	Capital Projects Fund	Other
<u>Due To:</u>							
General	\$ -	\$ -	\$ 81,004	\$ -	\$ -	\$ 228,270	\$ -
Beach Preservation Fees	10,214	-	-	-	-	-	-
Capital Project Fund	-	138,705	38,356	10,774	61,863	-	59,128
Debt Service Fund	237,060	-	-	-	-	584,736	-
Other Governmental Funds	59,128	-	-	-	-	-	-
Total	<u>\$ 306,402</u>	<u>\$ 138,705</u>	<u>\$ 119,360</u>	<u>\$ 10,774</u>	<u>\$ 61,863</u>	<u>\$ 813,006</u>	<u>\$ 59,128</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 4. Interfund Balances and Activities (continued)

Transfers to/from Other Funds

The Town uses transfers to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move Town grant monies from grantor funds to grantee funds, and (3) transfer bond proceeds from the fund that statute or budget requires to receive them to other funds authorized to execute the project.

Transfers in/out for the year ended June 30, 2005 are summarized below:

	Transfer In			
	General Fund	Debt Service Fund	Capital Projects Fund	Total
<u>Transfer Out:</u>				
TIF	\$ -	\$ -	\$ 1,948,548	\$ 1,948,548
Accommodations Tax	932,861	-	453,004	1,385,865
Real Estate Transfer Fees	-	2,386,377	143,100	2,529,477
Beach Preservation Fees	738,680	-	1,550,128	2,288,808
Capital Project Fund	1,481,608	679,102	-	2,160,710
Other Governmental Funds	7,634	-	698,646	706,280
Total	<u>\$ 3,160,783</u>	<u>\$ 3,065,479</u>	<u>\$ 4,793,426</u>	<u>\$ 11,019,688</u>

Note 5. Due To or From Other Governments

The amounts due to the Town from other governments are as follows:

General Fund

Property Taxes - Beaufort County	\$ 960,153
E 911 – Beaufort County	51,152
Merchants Inventory - State	
Hazmat – Beaufort County	2,153
Dispatch/EMS 911 – Beaufort County	18,750
Beaufort County Land Care South	8,370
SCMIT	3,298
SC DOT	34,380
State Shared Taxes	229,699
	<u>1,310,853</u>

<u>Tax Increment Financing – Beaufort County</u>	<u>214,162</u>
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Capital Projects Fund

State Grants	13,283
SC DOT	200,000
State Sunday Liquor Fees	57,150
County Grants	83,000
Stormwater Utility – Beaufort County	40,004
County Drop-Off Center Replacement – Beaufort County	23,000
	<u>416,437</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 5. Due To or From Other Governments (continued)

Accommodations Taxes – State	<u>1,090,620</u>
Real Estate Transfer Fees – Beaufort County	<u>688,286</u>
Total Due From Other Governments	<u>\$ 3,720,358</u>

The amounts due from the Town to other governments are as follows:

General Fund

Roads Impact Fee - Beaufort County	\$ 31,045
Municipal Court State Fees - SC State Treasurer	37,106
Sheriff's Department – Beaufort County	510,747
South Carolina – State Fire Academy	140
South Carolina - Employment	2,920
SCMIT	9,292
PORS - Retirement June	90,002
IRS - FICA and Federal Taxes	52,822
State of South Carolina – State Taxes	10,348
State of South Carolina – Use Taxes	<u>4,960</u>
	<u>\$ 749,382</u>

Note 6. Restricted Assets, Liabilities, and Fund Balance

Restricted assets arise through the Town's receipt of funds to ensure compliance with its laws and regulations and through Town Council designating certain amounts for specific future expenditures.

Certain contractors are required to post bonds in respect to agreements to perform work required by the Municipal Code. Some of these funds are held in the performance bond escrow account to be returned with interest earned on satisfactory completion of the contractors' obligations while others are held without interest. The amount held in a separate bank account is \$261,270 while \$180,232 is held in the general bank accounts.

Bonds paid by individuals for Municipal Court are required to be held in an escrow account until after the trial date. These funds are then either repaid to the individual or recognized as revenue by the Town based upon the verdict. At June 30, 2005, \$51,564 was the balance of bonds held.

Net assets in the government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 6. Restricted Assets, Liabilities, and Fund Balance (continued)

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for encumbrances - Portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved for debt services - Portion of fund balance reserved to meet debt service obligations.

Reserved for reserved - other - Portion of fund balance related to long-term employee receivables.

Reserved for land and park projects - Portion of fund balance available to pay for commitments related to land and park projects.

Unreserved:

Designated for disaster – The Town has designated \$200,000 for disaster, restricting the investment of cash in Wachovia Bank and designating fund balance. The Town has designated five percent (5%) of the one percent (1%) local accommodations tax for communications of disaster and festivals, and four percent (4%) of the one percent (1%) hospitality tax for the disaster reserve fund restricting the investment of cash in Wachovia and designating fund balance. The amount designated for disaster communications was \$859,031 at June 30, 2005.

Designated for hospitality tax purposes – The Town has designated five (5) percent of the one (1) percent local accommodations tax as a reserve fund for disaster management communications-oriented programs. Fund expenditures shall be used to provide for post disaster advertising, a communications link to emergency agencies, and media programs to provide public notice. Funds may be distributed upon authorization by the Town Manager.

Undesignated - Portion of total fund balance available for appropriation that is uncommitted at year-end.

Note 7. Accounts Payable

Accounts payable consist of payments due but unpaid at year-end.

	Government-Wide Financial Statements						
	Fund Financial Statements						
	General Fund	Accommodations Tax Fund	Beach Preservation Fees	Debt Service Fund	Capital Project Fund	Other Governmental Funds	Total
Payables:							
Accounts payable	\$ 367,156	\$ 77,650	\$ 21,903	\$ 375	\$ 826,093	\$ 271,278	\$ 1,564,455
Accrued payroll	675,672	-	-	-	-	-	675,672
Total payables	\$ 1,042,828	\$ 77,650	\$ 21,903	\$ 375	\$ 826,093	\$ 271,278	\$ 2,240,127

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 8. Unearned/Deferred Revenue

The balance of deferred revenues in the fund financial statements (includes both the deferred and unearned amounts disclosed below) and unearned revenues in the government-wide financial statements at year end are composed of the following elements:

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Grant revenues received in advance of being earned- Nonmajor Governmental	\$ 45,283	\$ 45,283
	<u>\$ 45,283</u>	<u>\$ 45,283</u>

The following is an explanation of each deferred/unearned revenue:

General Fund

The Town received \$20,465 from Beaufort County and \$2,544 from the State of South Carolina for a total of \$23,009 during the 2005 fiscal year.

Special Revenue Fund – Home Grant Fund

The deferred revenue in the Home Grant Fund for the year ended June 30, 2005, was \$22,274.

Note 9. Accommodations Tax Fund

Accommodations Tax Fund is a Special Revenue Fund to record Accommodations Tax receipts and grants approved by Town Council payable out of appropriations. Thirty percent (30%) and five percent (5%) of Accommodations Taxes after deducting a \$25,000 transfer to the General Fund is required to be transferred to the Hilton Head Island Chamber of Commerce Visitor and Convention Bureau and the general fund, respectively. The remaining amounts are allocated to various projects approved by Town Council and these projects must be tourism related.

Town Council has adopted a policy whereby the appropriations for an individual project will lapse if the project is not underway by July 1 of the year following appropriation. The appropriation can be extended, annually, until the funds are expended. Appropriations totaling \$20,000 were lapsed during the current year on a 2004 grant.

Recapped below are the grant appropriations and expenditures for the year ended June 30, 2005:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
Boys and Girls Club of Hilton Head Island	\$ 30,000	\$ 28,812		\$ 1,188
Coastal Discovery Museum - Honey Horn	370,545	207,342		163,203
Coastal Discovery Museum - Operations	74,996	61,418		13,578
Family Arts Center-General Operating Support	369,000	369,000		-
Harbourfest	7,500	7,500		-
HH Choral Society	3,700	3,700		-
HH Community & Youth Theater	42,500	42,500		-
HH Hospitality-Winter Carnival/Springfest	50,000	50,000		-

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9. Accommodations Tax Fund (continued)

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed</u>	<u>Encumbrances</u>
HHI Concours d'Elegance	\$ 20,000	\$ -	\$ 20,000	\$ -
HHI St. Patrick's Day Parade	13,987	9,943		4,044
HHI-Bluffton Chamber of Commerce Regional Partnership	253,475	153,590		99,885
Hilton Head Dance Theatre - Performance Season	10,000	10,000		
Hilton Head Island Hospitality Guide	30,000	30,000		
Hilton Head Orchestra	130,000	130,000		-
Island Recreation Association Summer Jams	2,000	2,000		-
Lowcountry Golf Course Owners Association	135,055	15,055		120,000
Lowcountry Tourism Commission	5,000	5,000		-
Martin Luther King Jr. Planning Committee	6,000	6,000		-
Native Islander Gullah Celebration	70,000	70,000		-
Skull Creek - July 4th Celebration	7,500	7,500		-
South Carolina Repertory Company	15,000	15,000		-
The Art League of Hilton Head	30,686	18,798		11,889
The Heritage Library Foundation	27,000	25,000		2,000
The Sandbox: A Hilton Head Area Children's Museum	20,000	-		20,000
Town Operations - Tourism Support	742,930	742,930		-
Wild Horse Road Pathway	92,961	92,961		-
Mathews Drive Pathway	38,356	38,356		-
Spanish Wells Road Pathway	200,000	200,000		-
Pathway Rehabilitation	50,000	49,980		20
Marshland Road	4,852	4,852		-
Wild Horse Road	44,218	44,218		-
Forest Preserve Museum Foundation (Sea Pines Circle)	50,000	50,000		-
Special Events Signs	2,635	2,635		-
Island Recreation Center Pool Dome	20,000	20,000		-
Total Grants Approved	<u>\$ 2,969,896</u>	<u>\$ 2,514,090</u>	<u>\$ 20,000</u>	<u>\$ 435,807</u>
Less Other Financing Uses In Grants Approved:				
General Fund Transfer - Town Operations Tourism Support	\$ (742,930)	\$ (742,930)		
Capital Projects Transfer - Wild Horse Road Pathway	(92,961)	(92,961)		
Capital Projects Transfer - Mathews Drive Pathway	(38,356)	(38,356)		
Capital Projects Transfer - Spanish Wells Road Pathway	(200,000)	(200,000)		
Capital Projects Transfer - Pathway Rehabilitation	(50,000)	(49,981)		
Capital Projects Transfer - Marshland Road	(4,852)	(4,852)		
Capital Projects Transfer - Wild Horse Road	(44,218)	(44,218)		
Capital Projects Transfer - Special Events Signs	(2,635)	(2,635)		
Capital Projects Transfer - Recreation Center Pool Dome	(20,000)	(20,000)		
Total Other Financing Uses In Grants Approved	<u>\$ (1,195,952)</u>	<u>\$ (1,195,933)</u>		
Total Grant Expenditures	<u>\$ 1,773,944</u>	<u>\$ 1,318,157</u>		

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9. Accommodations Tax Fund (continued)

The more significant projects and the related commitments are as follows:

Cultural Council

Town Council approved grants for the Arts Center of Coastal Carolina for the visual and performing arts. A total of \$369,000 was approved for operations during 2004/2005.

The grant amounts exclusive of the amounts paid to the Chamber of Commerce have been reflected on the financial statements as follows:

For the year ended June 30,	Accommodations Tax Grants			
	Approved	Paid		Lapsed
2000	\$2,172,231	\$(2,074,838)	\$(97,393)	\$ -
2001	2,247,614	(2,208,288)	(34,365)	4,961
2002	2,020,100	(1,873,987)	(19,757)	126,356
2003	2,165,544	(2,030,380)	(494)	134,670
2004	2,080,000	(1,992,879)	(20,000)	67,121
2005	2,087,265	(1,718,580)	-0-	368,685

The unpaid balances for approved grants are reflected as an encumbrance of fund balance in the Special Revenue fund. Fund balance at June 30, 2005, was \$1,659,530 of which \$435,806 was encumbered by approved grants.

Town council has approved amounts for 2005/2006 grants as follows:

Arts Center of Coastal Carolina	\$ 379,000
Coastal Discovery Museum	175,000
Hilton Head Hospitality Association - Springfest/Winter Carnival	45,000
Hilton Head Orchestra	140,000
Native Island Gullah Celebration	75,000
CIP – Pathway Rehabilitation	60,000
CIP – Recreation Center's Pool Handicap Lift	1,100
CIP – Recreation Center's Pool Dome Accessories	7,000
	<u>\$ 882,100</u>

Note 10. Long-Term Obligations

Capital Leases

On December 16, 1997, the Town entered into a lease agreement with LaSalle National Bank concerning purchase of two 1998 custom fire trucks. The purchase price of the new trucks was \$793,314 of which \$417,000 was a trade-in on an older fire truck. The total amount incurred on the lease was \$539,495 which included the remaining balance of the lease on the fire truck traded in. The lease bears an interest rate of 5.23% and is payable in annual installments of principal and interest of \$70,649 through December 2007. The lease is being paid annually through the general fund. A schedule of the amount due for this lease follows:

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 10. Long-Term Obligations (continued)
Capital Leases (continued)

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2006	\$ 10,019	\$ 60,630	\$ 70,649
2007	6,848	63,801	70,649
2008	3,511	67,139	70,649
	<u>\$ 20,378</u>	<u>\$ 191,570</u>	<u>\$ 211,947</u>

On January 1, 2000, the Town entered into a lease agreement with Kansas State Bank of Manhattan concerning the purchase of lifepacks. The Town is purchasing the lifepacks for \$133,610 of which \$22,563 was paid in cash and \$111,047 is to be paid under the lease. The lease bears an interest rate of 7.159% and is payable in annual installments of principal and interest of \$27,072 through December 1, 2004. The final lease payment of \$27,072 was paid December 1, 2004.

Kansas State Bank - Life Packs

Original asset cost	\$ 133,610
Additions	80,923
Less accumulated depreciation	<u>(214,533)</u>
Capitalized leased asset, net	<u>\$ -</u>

On December 13, 2001, the Town entered into a lease agreement with Bank of America Leasing & Capital, LLC concerning the purchase of a CAD System. The purchase price of the system was \$800,881. The lease bears an interest rate of 3.95% and is payable in interest only installments on July 1, 2002, with annual installment of principal and interest of \$220,609 beginning July 1, 2003 through July 1, 2006.

Bank of America - CAD System

Original asset cost	\$ 800,881
Less accumulated depreciation	<u>(749,445)</u>
Capitalized leased asset, net	<u>\$ 51,436</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 10. Long-Term Obligations (continued)
Capital Leases (continued)

The lease is being paid through the capital projects fund. A schedule of the amount due for this lease follows:

For the Year Ended June 30	Governmental Activities		
	Interest	Principal	Total
2006	\$ 16,624	\$ 203,985	\$ 220,609
2007	8,475	212,135	220,609
	<u>\$ 25,099</u>	<u>\$ 416,120</u>	<u>\$ 441,218</u>

Certificates of Participation

On March 1, 2004, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into a Certificate of Participation with Wells Fargo Bank, N.A. for \$9,060,000 secured by Town properties. A schedule for the amount due on this certificate follows:

\$9,060,000 (Tax-Exempt) Certificates of Participation
Dated March 1, 2004

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	2.000	\$ 258,443	\$ 900,000	\$ 1,158,443
2007	1.700	240,443	925,000	1,165,443
2008	2.250	224,717	940,000	1,164,717
2009	2.250	203,567	965,000	1,168,567
2010	3.000	181,855	980,000	1,161,855
2011	3.000	152,455	1,010,000	1,162,455
2012	3.000	122,155	1,035,000	1,157,155
2013	5.000	91,105	1,065,000	1,156,105
2014	3.350	37,855	1,130,000	1,167,855
		<u>\$ 1,512,595</u>	<u>\$ 8,950,000</u>	<u>\$ 10,462,595</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated tax exempt amount of certificates; (b) maximum annual debt service on certificate for any fiscal year; or (c) 125% of average annual debt on the certificates. At June 30, 2005, \$965,338 was the fair value of the amount held in the reserve fund for the tax-exempt certificates. The Capital Projects Fund is repaying these certificates of participation.

On March 3, 2005, the Hilton Head Island Public Facilities Corporation, refunded taxable Certificates of Participation issued with Wells Fargo Bank, N.A. in 2004 with tax-exempt certificates.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 10. Long-Term Obligations (continued)
Certificates of Participation (continued)

During that time, the Town issued \$1,055,000 in tax-exempt Certificates of Participation bearing an interest rate of 3.97% to refund \$1,450,000 of taxable Certificates of Participation with a variable interest rate. The Town contributed approximately \$450,000 from the Town's Debt Service thereby reducing the principal by \$400,000 on this issue and the balance being used to fund the cost of issuance. The net proceeds of \$1,002,362 (after payment of \$52,638 in issuance costs) were used to purchase United States government securities. The certificates were refunded to reduce total debt service payments over the next nine (9) years by \$519,451 and resulted in an economic loss (difference between the present values of the old and new debt service payments) of approximately \$17,760. A schedule for the amount due on these certificates follows:

\$1,055,000 (Tax-Exempt) Certificates of Participation
Dated March 3, 2005

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	3.970	\$ 41,651	\$ 110,000	\$ 151,651
2007	3.970	37,517	115,000	152,517
2008	3.970	32,951	110,000	142,951
2009	3.970	28,584	115,000	143,584
2010	3.970	24,018	115,000	139,018
2011	3.970	19,453	120,000	139,453
2012	3.970	14,689	120,000	134,689
2013	3.970	9,925	120,000	129,925
2014	3.970	5,161	130,000	135,161
		<u>\$ 213,949</u>	<u>\$ 1,055,000</u>	<u>\$ 1,268,949</u>

General Obligation Bonds

On July 9, 1996, the Town issued \$1,425,000 general obligation bonds to fund capital projects for a water tower, fire hydrants, renovation of fire stations, and other corporate purposes. A schedule of the amount due for this issue follows:

\$1,425,000 General Obligation Bonds
Dated June 1, 1996

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	5.100	\$ 38,782	\$ 145,000	\$ 183,782
2007	5.200	31,185	150,000	181,185
2008	5.300	23,045	160,000	183,045
2009	5.400	14,215	170,000	184,215
2010	5.500	4,812	175,000	179,812
		<u>\$ 112,039</u>	<u>\$ 800,000</u>	<u>\$ 912,039</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

On July 9, 1996, the Town issued \$11,180,000 general obligation bonds to defease the remaining amount of the \$1,250,000 general obligation bonds dated November 1, 1987, and the remaining amount of the \$11,600,000 general obligation bonds dated August 1, 1989. A schedule of the amount due for this issue follows:

		<u>\$11,180,000 General Obligation Bonds</u> <u>Dated June 1, 1996</u>		
		Governmental Activities		
<u>For the Year</u> <u>Ended June 30</u>	<u>Interest Rate</u> <u>by Year (%)</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	5.100	\$ 228,317	\$ 845,000	\$ 1,073,317
2007	5.200	183,630	890,000	1,073,630
2008	5.300	135,712	935,000	1,070,712
2009	5.400	84,205	990,000	1,074,205
2010	5.500	28,737	1,045,000	1,073,737
		<u>\$ 660,601</u>	<u>\$ 4,705,000</u>	<u>\$ 5,365,601</u>

On April 1, 1998, the Town issued \$15,000,000 general obligation bonds which repaid a bond anticipation note of \$10,000,000 for land acquisition and \$3,000,000 for capital projects issued during the year ended June 30, 1999, and to finance capital projects. A schedule of the amount due for this issue follows:

		<u>\$15,000,000 General Obligation Bonds</u> <u>Dated April 1, 1998</u>		
		Governmental Activities		
<u>For the Year</u> <u>Ended June 30</u>	<u>Interest Rate</u> <u>by Year (%)</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	6.700	\$ 685,488	\$ 455,000	\$ 1,140,488
2007	6.700	654,332	475,000	1,129,332
2008	5.500	624,808	495,000	1,119,808
2009	4.750	598,964	515,000	1,113,964
2010	4.800	573,892	535,000	1,108,892
2011	4.900	547,333	560,000	1,107,333
2012	5.000	518,987	585,000	1,103,987
2013	5.000	488,988	615,000	1,103,988
2014	5.100	457,165	645,000	1,102,165
2015	5.130	423,421	675,000	1,098,421
2016	5.130	388,058	705,000	1,093,058
2017	5.130	351,030	740,000	1,091,030
2018	5.130	312,080	780,000	1,092,080
2019	5.130	271,080	820,000	1,091,080
2020	5.200	227,707	860,000	1,087,707

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2021	5.200	\$ 181,817	\$ 905,000	\$ 1,086,817
2022	5.250	133,219	955,000	1,088,219
2023	5.250	81,769	1,005,000	1,086,769
2024	5.250	27,694	1,055,000	1,082,694
		<u>\$ 7,547,832</u>	<u>\$ 13,380,000</u>	<u>\$ 20,927,832</u>

On November 16, 1999, the Town issued \$6,000,000 general obligation bonds to finance capital projects. A schedule of the amount due for this issue follows:

\$6,000,000 General Obligation Bonds
Dated November 1, 1999

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	7.000	\$ 330,655	\$ 170,000	\$ 500,655
2007	7.000	318,405	180,000	498,405
2008	7.000	305,630	185,000	490,630
2009	6.250	293,061	195,000	488,061
2010	5.000	281,843	205,000	486,843
2011	5.100	271,235	215,000	486,235
2012	5.200	259,773	230,000	489,773
2013	5.300	247,433	240,000	487,433
2014	5.400	234,188	255,000	489,188
2015	5.500	219,878	270,000	489,878
2016	5.600	204,613	280,000	484,613
2017	5.625	188,355	300,000	488,355
2018	5.700	170,920	315,000	485,920
2019	5.750	152,311	335,000	487,311
2020	5.800	132,385	355,000	487,385
2021	5.800	111,215	375,000	486,215
2022	5.800	88,885	395,000	483,885
2023	5.800	65,250	420,000	485,250
2024	5.800	40,165	445,000	485,165
2025	5.800	13,630	470,000	483,630
		<u>\$ 3,929,830</u>	<u>\$ 5,835,000</u>	<u>\$ 9,764,830</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

On May 12, 2004, the Town issued \$15,000,000 general obligation bonds for general land acquisition. A schedule of the amount due for this issue follows:

<u>\$15,000,000 General Obligation Bonds</u> <u>Dated May 1, 2004</u>				
Governmental Activities				
For the Year Ended June 30	Interest Rate by Year (%)	Interest	Principal	Total
2006	3.500	\$ 692,750	\$ 400,000	\$ 1,092,750
2007	3.500	678,750	405,000	1,083,750
2008	3.500	664,575	415,000	1,079,575
2009	3.500	650,050	425,000	1,075,050
2010	5.500	635,175	435,000	1,070,175
2011	5.500	611,250	450,000	1,061,250
2012	5.500	586,500	465,000	1,051,500
2013	5.250	560,925	480,000	1,040,925
2014	5.250	535,725	500,000	1,035,725
2015	5.250	509,475	520,000	1,029,475
2016	5.000	482,175	540,000	1,022,175
2017	5.000	455,175	560,000	1,015,175
2018	4.400	427,175	585,000	1,012,175
2019	4.500	401,435	610,000	1,011,435
2020	4.500	373,985	635,000	1,008,985
2021	4.500	345,410	665,000	1,010,410
2022	4.625	315,485	695,000	1,010,485
2023	4.700	283,341	730,000	1,013,341
2024	4.750	249,031	765,000	1,014,031
2025	4.750	212,694	800,000	1,012,694
2026	4.750	174,694	840,000	1,014,694
2027	4.875	134,794	880,000	1,014,794
2028	4.875	91,894	920,000	1,011,894
2029	4.875	47,044	965,000	1,012,044
		\$ 10,119,507	\$ 14,685,000	\$ 24,804,507

On October 26, 2004, the Town issued \$5,365,000 in general obligation bonds with an average interest rate of 2.97% to advance refund 4,925,000 general obligation bonds dated April 1, 1998, with an average interest rate of 4.88% to finance capital projects. The net proceeds of \$5,302,552 including a premium of \$38,304 (after payment of \$100,752 in issuance costs) and funds on hand were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service payments over the next eight (8) years by \$133,983 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$139,650. A schedule of the amount due for this issue follows:

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

\$5,365,000 General Obligation Bonds
Dated October 1, 2004

		Governmental Activities		
For the Year Ended June 30	Interest Rate by Year (%)	Interest	Principal	Total
2006	3.000	\$ 156,338	\$ 65,000	\$ 221,338
2007	3.000	154,163	80,000	234,163
2008	2.500	145,775	575,000	720,775
2009	2.750	129,306	675,000	804,306
2010	3.000	107,800	815,000	922,800
2011	3.000	62,125	2,230,000	2,292,125
2012	3.100	14,337	925,000	939,337
		<u>\$ 769,844</u>	<u>\$ 5,365,000</u>	<u>\$ 6,134,844</u>

A schedule for the portion of general obligations bonds dated April 1, 1998, not refunded follow

\$835,000 General Obligation Bonds
Dated April 1, 1998

		Governmental Activities		
For the Year Ended June 30	Interest Rate by Year (%)	Interest	Principal	Total
2006	4.500	\$ 23,450	\$ 275,000	\$ 298,450
2007	4.550	8,531	375,000	383,531
		<u>\$ 31,981</u>	<u>\$ 650,000</u>	<u>\$ 681,981</u>

On March 15, 2005, the Town issued \$24,265,000 in general obligation bonds with an average interest rate of 4.38% to advance refund \$9,155,000 general obligation bonds dated November 1, 1999, and \$14,075,000 general obligation bonds dated March 1, 2001, at an aggregate average interest rate of 5.27%. The net proceeds of \$24,654,307 including \$822,369 in premiums (after payment of \$433,062 in issuance costs) were used to purchase United States government securities. These general obligation bonds were refunded to reduce total debt service over the next twenty (20) years by \$1,583,835 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,053,675. A schedule for the amount due for this refunded issue is as follows:

\$24,265,000 General Obligation Bonds
Dated March 1, 2005

		Governmental Activities		
For the Year Ended June 30	Interest Rate by Year (%)	Interest	Principal	Total
2006	4.000	\$ 1,312,144	\$ 25,000	\$ 1,337,144
2007	4.000	1,047,315	90,000	1,137,315
2008	4.000	1,043,615	95,000	1,138,615

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2009	4.000	\$ 1,039,715	\$ 100,000	\$ 1,139,715
2010	4.000	1,017,215	1,025,000	2,042,215
2011	4.000	967,315	1,470,000	2,437,315
2012	4.000	907,415	1,525,000	2,432,415
2013	3.750	847,196	1,585,000	2,432,196
2014	3.750	786,634	1,645,000	2,431,634
2015	4.000	721,590	1,710,000	2,431,590
2016	5.000	642,765	1,785,000	2,427,765
2017	5.000	551,265	1,875,000	2,426,265
2018	5.000	455,390	1,960,000	2,415,390
2019	5.000	355,015	2,055,000	2,410,015
2020	4.000	260,640	2,150,000	2,410,640
2021	4.100	174,693	2,095,000	2,269,693
2022	4.200	116,625	720,000	836,625
2023	4.250	85,567	750,000	835,567
2024	4.300	52,753	785,000	837,753
2025	4.375	17,937	820,000	837,937
		<u>\$ 12,402,804</u>	<u>\$ 24,265,000</u>	<u>\$ 36,667,804</u>

Schedules for the amount due on the portions of general obligation not refunded at this time follow:

\$2,050,000 General Obligation Bonds
Dated November 1, 1999

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	7.125	\$ 113,822	\$ 315,000	\$ 428,822
2007	7.125	90,666	335,000	425,666
2008	7.125	66,263	350,000	416,263
2009	7.125	40,613	370,000	410,613
2010	7.125	13,716	385,000	398,716
		<u>\$ 325,080</u>	<u>\$ 1,755,000</u>	<u>\$ 2,080,080</u>

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 10. Long-Term Obligations (continued)
General Obligation Bonds(continued)

\$3,990,000 General Obligation Bonds
Dated March 1, 2001

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	4.250	\$ 143,000	\$ 770,000	\$ 913,000
2007	4.250	110,275	800,000	910,275
2008	4.500	76,275	830,000	906,275
2009	4.590	38,925	865,000	903,925
		<u>\$ 368,475</u>	<u>\$ 3,265,000</u>	<u>\$ 3,633,475</u>

Revenue Bonds

On December 1, 2002, the Town issued \$17,000,000 revenue bonds to fund stormwater management projects. A schedule of the amount due for this issue follows:

\$17,000,000 Stormwater Revenue Bonds
Dated December 1, 2002

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	3.000	\$ 742,971	\$ 505,000	\$ 1,247,971
2007	3.000	727,596	520,000	1,247,596
2008	2.650	712,708	535,000	1,247,708
2009	3.000	697,369	550,000	1,247,369
2010	3.250	679,938	565,000	1,244,938
2011	3.450	660,665	585,000	1,245,665
2012	3.625	639,608	605,000	1,244,608
2013	3.750	616,924	625,000	1,241,924
2014	4.000	592,205	650,000	1,242,205
2015	4.000	565,705	675,000	1,240,705
2016	5.250	533,830	700,000	1,233,830
2017	5.250	496,030	740,000	1,236,030
2018	4.350	459,640	780,000	1,239,640
2019	5.125	421,919	810,000	1,231,919
2020	5.125	379,253	855,000	1,234,253
2021	5.125	334,409	895,000	1,229,409
2022	5.125	287,388	940,000	1,227,388
2023	5.125	237,931	990,000	1,227,931
2024	4.750	187,863	1,040,000	1,227,863
2025	4.750	137,275	1,090,000	1,227,275
2026	4.750	84,194	1,145,000	1,229,194
2027	4.750	28,500	1,200,000	1,228,500
		<u>\$ 10,223,921</u>	<u>\$ 17,000,000</u>	<u>\$ 27,223,921</u>

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 10. Long-Term Obligations (continued)
Revenue Bonds (continued)

On June 1, 2004, the Hilton Head Island Public Facilities Corporation, a non-profit entity and component unit of the Town, entered into a Certificate of Participation with Wells Fargo Bank, N.A. for \$10,775,000 secured by revenues collected from Hospitality Tax. The monies will be used for public safety capital improvement projects. A schedule of the amount due on this certificate follows:

\$10,775,000 (Hospitality Fee Pledge) Revenue Bond
Dated June 1, 2004

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	2.250	\$ 464,385	\$ 290,000	\$ 754,385
2007	3.000	457,970	300,000	757,970
2008	3.000	448,970	305,000	753,970
2009	3.750	439,820	315,000	754,820
2010	3.500	428,007	325,000	753,007
2011	3.500	416,632	340,000	756,632
2012	4.000	404,732	350,000	754,732
2013	4.000	390,733	365,000	755,733
2014	4.100	376,133	380,000	756,133
2015	4.250	360,553	395,000	755,553
2016	4.350	343,765	410,000	753,765
2017	4.450	325,930	430,000	755,930
2018	4.500	306,795	450,000	756,795
2019	4.600	286,545	470,000	756,545
2020	4.650	264,925	490,000	754,925
2021	4.800	242,140	515,000	757,140
2022	4.800	217,420	540,000	757,420
2023	5.000	191,500	565,000	756,500
2024	5.000	163,250	590,000	753,250
2025	5.000	133,750	620,000	753,750
2026	5.000	102,750	650,000	752,750
2027	5.000	70,250	685,000	755,250
2028	5.000	36,000	720,000	756,000
		<u>\$ 6,872,955</u>	<u>\$ 10,500,000</u>	<u>\$ 17,372,955</u>

The Town is required to maintain a reserve which shall be the lesser of (a) 10% of stated amount of certificates; (b) maximum annual debt service on certificate for any fiscal year or (c) 125% of average annual debt on the certificates. At June 30, 2005, \$797,691 was the fair value of the amount held in the reserve fund. The Town is required to maintain a debt service pledge account on July 1 each year which is equal to the principal and interest for that year. On June 30, 2005, the amount in the pledge account was \$9,057. The Debt Service Fund is repaying these certificates of participation.

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 10. Long-Term Obligations (continued)

Tax Increment Bonds

On June 25, 2004, the Town issued \$8,000,000 tax increment bonds for paying principal and interest on the tax increment bond anticipation note of \$4,530,000 which matured June 25, 2004, and for financing redevelopment projects. A schedule of the amount due for this issue follows:

\$8,000,000 Tax Increment Bonds
Dated June 25, 2004

For the Year Ended June 30	Interest Rate by Year (%)	Governmental Activities		
		Interest	Principal	Total
2006	4.650	\$ 357,004	\$ 645,000	\$ 1,002,004
2007	4.650	326,314	675,000	1,001,314
2008	4.650	294,112	710,000	1,004,112
2009	4.650	260,400	740,000	1,000,400
2010	4.650	225,176	775,000	1,000,176
2011	4.650	188,325	810,000	998,325
2012	4.650	149,730	850,000	999,730
2013	4.650	109,275	890,000	999,275
2014	4.650	66,960	930,000	996,960
2015	4.650	22,669	975,000	997,669
		<u>\$ 1,999,965</u>	<u>\$ 8,000,000</u>	<u>\$ 9,999,965</u>

The Town has established a Debt Service Fund for payment of the bonds.

The Town has defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The liability of the defeased bonds has been removed from the Town's long-term debt and the trust account assets are not included in these statements. At June 30, 2005, \$29,605,000 of bonds are considered defeased debt.

The changes in long-term liabilities are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds payable	\$ 76,285,000	\$ 29,630,000	\$ 31,210,000	\$ 74,705,000	\$ 3,465,000
Certificates of participation	10,530,000	1,055,000	1,580,000	10,005,000	1,010,000
Revenue bonds	35,775,000	-	275,000	35,500,000	1,440,000
Capital leases	886,720	-	279,030	607,690	264,615
Premium on bonds	85,096	860,673	21,373	924,396	50,290
Total bonds and notes payable	<u>123,561,816</u>	<u>31,545,673</u>	<u>33,365,403</u>	<u>121,742,086</u>	<u>6,229,905</u>
Other liabilities:					
Compensated absences	1,150,068	1,187,985	1,150,068	1,187,985	1,069,187
Total other liabilities	<u>1,150,068</u>	<u>1,187,985</u>	<u>1,150,068</u>	<u>1,187,985</u>	<u>1,069,187</u>
Governmental activities long-term liabilities	<u>\$ 124,711,884</u>	<u>\$ 32,733,658</u>	<u>\$ 34,515,471</u>	<u>\$ 122,930,071</u>	<u>\$ 7,299,092</u>

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 10. Long-Term Obligations (continued)

The aggregate amounts of maturities of long-term bonds due are as follows:

For the Year Ended June 30	Government Activities		
	Interest	Principal	Total
2006	\$ 5,588,998	\$ 5,915,000	\$ 11,503,998
2007	5,067,090	6,315,000	11,382,090
2008	4,799,157	6,640,000	11,439,157
2009	4,518,794	6,990,000	11,508,794
2010-2014	18,171,430	34,110,000	52,281,430
2015-2019	11,806,586	24,255,000	36,061,586
2020-2024	5,853,716	24,180,000	30,033,716
2025-2029	1,285,406	11,805,000	13,090,406
Total	<u>\$ 57,091,177</u>	<u>\$ 120,210,000</u>	<u>\$ 177,301,177</u>

Note 11. Grant Revenues and Expenditures

The Town has participated in or applied for several grants during the year. The terms and conditions for reimbursement are as follows:

Special Revenue Fund

The Town received \$116,198 from the South Carolina Department of Commerce for the Community Development Block Grant Fund. The Town expended a total of \$115,868 in the fund during the 2005 fiscal year for sewer facilities and engineering design.

Note 12. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government	Beginning Balances	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 128,287,739	\$ 2,843,849	\$ -	\$ 131,131,588
Construction in progress	15,076,696	8,353,570	(15,415,692)	8,014,574
Total capital assets not being depreciated	<u>143,364,435</u>	<u>11,197,419</u>	<u>(15,415,692)</u>	<u>139,146,162</u>
Capital assets being depreciated:				
Buildings	13,590,876	130,000	-	13,720,876
Furniture, fixtures and equipment	3,140,286	248,961	(241,114)	3,148,133
Vehicles	4,968,054	207,603	(677,138)	4,498,519
Infrastructure	16,065,528	14,447,296	-	30,512,824
Total capital assets being depreciated	<u>37,764,744</u>	<u>15,033,860</u>	<u>(918,252)</u>	<u>51,880,352</u>
Less accumulated depreciation for:				
Buildings	4,353,729	450,801	-	4,804,530
Furniture, fixtures and equipment	1,735,625	468,762	(156,863)	2,047,524
Vehicles	3,755,160	402,805	(634,248)	3,523,717
Infrastructure	2,496,627	1,100,759	-	3,597,386
Total accumulated depreciation	<u>12,341,141</u>	<u>\$ 2,423,127</u>	<u>\$ (791,111)</u>	<u>13,973,157</u>
Total capital assets being depreciated, net	<u>25,423,603</u>			<u>37,907,195</u>
Government activity capital assets, net	<u>\$ 168,788,038</u>			<u>\$ 177,053,357</u>

TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 12. Capital Assets (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

General Government	\$ 122,646
Management Services	100,657
Planning/Building and Fire Codes	13,148
Public Safety	940,956
Public Projects and Facilities	<u>1,245,720</u>
Total Depreciation Expense	<u><u>\$ 2,423,127</u></u>

Note 13. Capital Projects Fund

The Town opened a Capital Projects Fund for the purpose of providing funds for future capital outlays.

Public Facilities, capital improvements, and land acquisition projects are underway. The projects are being financed by contributions, grants, municipal improvement district assessments, Sunday permit fees, hospitality tax, and a property tax levy. For the year ended June 30, 2005, the following projects were budgeted and expenditures were made as shown below during the current year:

Public Facilities Projects	\$ 1,925,580
Land Acquisition	2,923,575
Park Development	1,353,263
Facilities Improvement	959,917
Pathways	1,373,720
Roadway Improvement	477,225
Drainage Improvements	<u>2,110,505</u>
	\$
	<u><u>11,123,785</u></u>

Note 14. Contracted Commitments and Operating Leases

Commitments

At June 30, 2005, the Town had outstanding construction commitments of approximately \$9,310,000. Through June 30, 2005, approximately \$4,930,000 in costs had been incurred on these commitments. At June 30, 2005, the Town had outstanding construction commitments totaling approximately \$4,380,000 for capital projects in progress.

Operating Leases

For the Town's fiscal year ended June 30, 2005, there were no minimum rental payments under noncancelable operating leases and no contingent rental payments. The Town's contingent rentals are for the lease of a building with expense being determined by repair costs incurred during the lease term.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 14. Contracted Commitments and Operating Leases (continued)
Operating Leases (continued)

At June 30, 2005, future minimum payments under noncancelable operating leases with remaining terms in excess of one year were as follows:

For the Year Ended June 30,	Total Payments
2006	\$ 36,789
2007	36,789
2008	36,789
2009	36,789
	<u>\$ 147,156</u>

Note 15. Pension Plan
ICMA Plan

The Town established a defined contribution money purchase pension plan on February 15, 1984, effective for the fiscal year beginning July 1, 1984, for all full-time employees as a 401 (a) plan through December 31, 1996, and was rolled over to a 401(k) plan on January 1, 1997. The plan is administered by and the funds are held by the International City Management Association (ICMA), a Pension Fund Administrator. All full-time employees are covered by the plan except those covered by the South Carolina Retirement plans and are fully vested after five years of service. The plan calls for employer contributions to the fund based on 5% automatic and matching 100% of the employee's first 3% contribution and 50% of the next 3% contributed.

For the year ended June 30, 2005, employer contributions were based on a total payroll of \$6,087,605. The amount contributed by the employer for the year ending June 30, 2005 was \$520,474 or 8.60% of covered payroll. Employee contributions to the plan were \$394,300 or 6.48% of covered payroll for year ending June 30, 2005. The present value of vested benefits does not exceed the net assets of the pension plan. Employees who participate in the PORS plan made contributions of \$116,909 to the 401(k). No match was made for these contributions.

PORS Plan

The Town is a member of the South Carolina Police Officers Retirement System (PORS). All full-time public safety employees whose principle duty is the prevention and control of property destruction by fire, excluding clerical staff, are eligible and must belong to the System, a cost sharing multiple-employer defined benefit pension plan administered by the State of South Carolina Retirement Systems, a Division of the State Budget and Control Board. Both employers and employees are required to contribute to the plans under authority of Title 9 of the South Carolina Code of Law. Mandatory employee contributions of 6.5% of their total earnings are made through payroll deductions. Employees hired before July 1, 1995, who complete three years of service only contribute 3.0% and the Town pays the remaining 3.5%. For the year ended June 30, 2005, \$6,467,463 of wages was subject to retirement. The Town pays the employer contribution at the rate of 10.3% of member salaries except for employees hired before July 1, 1995, who complete three years of service then the employer contribution rate is 13.8%. During the year ended June 30, 2005, a total of \$828,772.32 was contributed

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 15. Pension Plan (continued)
 PORS Plan (continued)

into the System for the Town's share and \$257,761 for the employees' share, which represented 12.81% and 3.99% of covered payroll, respectively. During the years ended June 30, 2004 and 2003, \$814,089 and \$811,379 were contributed to the system for the Town's share, representing 13.31% and 13.38% of covered payroll, respectively. The Town also contributes .004% of salary for group life contributions and accidental death contributions. All employees contribute at the actuarially required contribution rate.

Employees vest after five years and are entitled to a deferred annuity commencing at age 55. Employees who retire at age 55 with 5 years of service or have twenty-five years of credited service are entitled to a retirement benefit, payable monthly for life equal to 2.14% of average final compensation times years of credited service. The System also provides disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits which are established by State statute.

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the Police Officers' Retirement System is issued and publicly available by writing the South Carolina Retirement System, P. O. Box 11960, Columbia, SC 29211-1960.

Pension Plan Summary - ICMA and PORS Combined

For the year ended June 30, 2005, employer contributions were based on a total payroll of \$12,725,122 of which \$12,555,068 or 98.66% of the total payroll was covered under the plan. Employer contributions were \$1,349,247 or 10.75% of covered payroll. Employee contributions were \$768,970 or 6.13% of covered payroll.

Note 16. Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the employee.

Management of these funds is by the retirement plan administrator of International City Management Association (ICMA).

Investments are managed by the plan's trustee under one of five investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

Note 17. Health Plans

In January 2001, the Town instituted a medical flexible plan whereby the Town contributes a set amount each year per employee based upon their years of service. The employees submit reimbursement requests for medical expenses to human resources for reimbursement. Amounts not used during the calendar year are carried over to the next year. The Town's liability under this plan totaled \$157,809 at June 30, 2005, and is included as a liability in the general fund in the accrued payroll and employee payables.

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 17. Health Plans (continued)

In January 2002, the Town instituted a plan for retiree medical expenses. Annually, the Town contributes a percent of the value of the forfeited sick leave into individual ICMA investment accounts to pay retiree medical expenses based on years of service. The contribution schedule is as follows:

- < 10 years of service – 25% of the value of forfeited sick leave
- ≥ 10 < 15 years of service – 50% of the value of forfeited sick leave
- ≥ 15 < 20 years of service – 75% of the value of forfeited sick leave
- ≥ 20 years of service – 100% of the value of forfeited sick leave

The Town contributed \$70,051 during the year ended June 30, 2005. Employees who retire meeting 25 years for Police Office Retirement System or 5 years of service and age 55 are eligible for the benefit. The plan carries to survivor or dependent at death, but is used for future contributions credit if an employee leaves for a reason other than retirement. Three (3) employees were eligible for the benefits for the period ending June 30, 2005.

In January 2005, the Town instituted a preventive healthcare plan whereby employees are eligible for reimbursement of expenses associated with preventive care examinations and/or tests up to an established limit each year. The reimbursement is available for use by the employee or a dependent of the employee. There is only one benefit per family per year. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2005, the limit was \$200.00, and the Town's liability under this plan totaled \$45,881.

In January 2005, the Town also instituted a preventive dental care plan whereby employees covered by the State Dental Plan are eligible for reimbursement of out-of-pocket expenses associated with preventive dental care up to an established limit each year. The reimbursement is available to the employee and their dependents provided they are covered under the State Dental Plan. Unused funds will be forfeited at the end of the year. For the period ending June 30, 2005, the limit was \$100.00 per covered individual, and the Town's liability under this plan totaled \$49,447.

Note 18. Contingencies

Arbitrage - State and local bonds issued after 1984 are subject to arbitrage restrictions as enacted by the Federal government. To retain the Bonds tax exempt status, local governments must meet the regulations as adopted by the U.S. Treasury Department. The proceeds from the bond issue must not be invested, for more than a temporary period, in obligations producing a materially higher yield than the bond issue. To maintain tax exempt status, the yield earned at the materially higher rate over the bond cost must be remitted to the U.S. Treasury every five years. Exceptions to the regulations include the requirement that the local government expend all the Bond proceeds within designated periods which could be up to three years.

Based on preliminary calculations by the Town's Management, the Town is not earning materially higher yields and it expects to expend all funds within the designated time.

Risk Management and Litigation - The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in the State of South Carolina insurance fund and also purchases commercial insurance as its primary defense against losses arising from the above. The fund provides beneficial insurance rates with regular

**TOWN OF HILTON HEAD ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 18. Contingencies (continued)

insurance coverage. The fund is not considered a risk pool. The amount of settlements has not exceeded insurance coverage over the past three fiscal years.

The Town has also designated a portion of its fund balance to defray the extraordinary costs it anticipates it would incur during a natural disaster. These anticipated costs are for employee overtime, disaster aid and the like. All risk management activities are accounted for in the general fund.

Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. No amount for claims has been accrued at June 30, 2005.

Lawsuits - The Town has been named in several lawsuits concerning zoning, enforcement of Town ordinances and for performance. None of these suits claim any damages.

The Town has been named in several lawsuits concerning other matters asserting monetary damages. The cases are in preliminary stages and the possible outcome or damages are unknown at this time.



General Fund

The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

Schedule 1
Page 1 of 7

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Revenues:</u>				
Real and Personal Property Taxes:				
Real and Personal Property Taxes	\$ 10,748,900	\$ 10,748,900	\$ 11,833,517	\$ 1,084,617
Accommodations Tax:				
Local 1% - Public Safety	1,818,000	1,818,000	1,991,048	173,048
Business Licenses and Franchise Fees:				
Business Licenses	6,082,240	6,082,240	6,689,663	607,423
Electric Utility	50,000	50,000	66,667	16,667
Cable Television	449,200	449,200	503,187	53,987
Beach Franchise Fee	4,200	4,200	2,079	(2,121)
Total	6,585,640	6,585,640	7,261,596	675,956
Permits:				
Construction Permits	722,880	722,880	1,004,730	281,850
Development Permits	6,000	6,000	18,068	12,068
Other Permits	495,000	495,000	640,485	145,485
Total	1,223,880	1,223,880	1,663,283	439,403
State Shared Funds:				
State Shared Funds	885,670	885,670	916,929	31,259
Donations:				
EMS/Fire Department Donations	100	100	25	(75)
Grants:				
Beaufort County Hazmat	-	-	37,936	37,936
Miscellaneous Reimbursements	-	-	117,131	117,131
Total	-	-	155,067	155,067
Miscellaneous Revenue:				
Public Safety Revenue	900,000	900,000	992,708	92,708
Beach Service	300,000	300,000	347,784	47,784
Municipal Court Fines and Fees	276,450	276,450	307,993	31,543
Miscellaneous Revenue	214,100	214,100	206,487	(7,613)
Total	1,690,550	1,690,550	1,854,972	164,422
Investment Income:				
Investment Income	90,000	90,000	135,853	45,853
Total Revenues	23,042,740	23,042,740	25,812,290	2,769,550

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

Schedule 1
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures:				
General Government:				
Town Council:				
Salaries and Benefits	\$ 85,040	\$ 85,040	\$ 77,261	\$ 7,779
Other Operating	166,500	166,500	264,871	(98,371)
Total Town Council	251,540	251,540	342,132	(90,592)
Town Manager:				
Salaries and Benefits	263,500	263,500	286,651	(23,151)
Other Operating	90,100	90,100	82,415	7,685
Total Town Manager	353,600	353,600	369,066	(15,466)
Human Resources:				
Salaries and Benefits	309,410	309,310	309,105	205
Other Operating	229,020	235,120	212,909	22,211
Total Human Resources	538,430	544,430	522,014	22,416
Total General Government	1,143,570	1,149,570	1,233,212	(83,642)
Management Services:				
Finance-Administration:				
Salaries and Benefits	170,490	170,490	167,861	2,629
Other Operating	22,730	22,730	12,766	9,964
Total Finance Administration	193,220	193,220	180,627	12,593
Finance-Accounting:				
Salaries and Benefits	453,110	453,110	450,638	2,472
Other Operating	76,460	76,460	62,588	13,872
Total Finance Accounting	529,570	529,570	513,226	16,344
Finance-Business License:				
Salaries and Benefits	358,900	368,900	355,772	13,128
Other Operating	25,620	25,620	20,635	4,985
Total Finance Business License	384,520	394,520	376,407	18,113
Municipal Court:				
Salaries and Benefits	335,720	335,720	316,582	19,138
Other Operating	81,400	81,400	64,209	17,191
Total Municipal Court	417,120	417,120	380,791	36,329
Administration-Legal :				
Salaries and Benefits	375,770	375,770	362,515	13,255
Other Operating	27,860	27,860	19,569	8,291
Total Administration Legal	403,630	403,630	382,084	21,546

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

Schedule 1
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	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Management Services(continued):				
Administration-Administrative Support :				
Salaries and Benefits	146,760	146,760	146,291	469
Other Operating	21,180	21,180	9,170	12,010
Total Administration Support	167,940	167,940	155,461	12,479
Administration-Operations:				
Salaries and Benefits	753,510	753,510	696,800	56,710
Other Operating	499,600	502,250	481,557	20,693
Total Administration Operations	1,253,110	1,255,760	1,178,357	77,403
Total Management Services	3,349,110	3,361,760	3,166,953	194,807
Planning/Building & Fire Codes:				
Planning Administration:				
Salaries and Benefits	366,250	366,250	383,261	(17,011)
Other Operating	26,850	26,850	20,202	6,648
Total Planning Administration	393,100	393,100	403,463	(10,363)
Current Planning:				
Salaries and Benefits	395,680	395,680	373,683	21,997
Other Operating	41,310	41,310	24,983	16,327
Total Current Planning	436,990	436,990	398,666	38,324
Long Range Planning:				
Salaries and Benefits	420,190	420,190	394,453	25,737
Other Operating	335,060	335,060	74,141	260,919
Total Long Range Planning	755,250	755,250	468,594	286,656
Natural Resources Planning:				
Salaries and Benefits	155,370	155,370	90,911	64,459
Other Operating	27,190	27,190	9,585	17,605
Total Natural Resources Planning	182,560	182,560	100,496	82,064
Building & Fire Codes:				
Salaries and Benefits	1,029,550	1,037,050	1,040,554	(3,504)
Other Operating	82,120	81,220	69,601	11,619
Total Building & Fire Codes	1,111,670	1,118,270	1,110,155	8,115
Total Planning/Building & Fire Codes	2,879,570	2,886,170	2,481,374	404,796

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

Schedule 1
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	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Public Safety:				
Fire & Rescue Administration:				
Salaries and Benefits	337,880	337,880	337,443	437
Other Operating	382,270	382,270	474,782	(92,512)
Total Fire & Rescue Administration	720,150	720,150	812,225	(92,075)
Fire & Rescue Logistics/Maintenance:				
Salaries and Benefits	400,910	400,910	405,185	(4,275)
Other Operating	560,950	581,252	505,472	75,780
Total Fire & Rescue Logistics/Maintenance	961,860	982,162	910,657	71,505
Fire & Rescue Operations:				
Salaries and Benefits	7,480,660	7,480,660	7,491,679	(11,019)
Other Operating	180,690	180,690	165,701	14,989
Total Fire & Rescue Operations	7,661,350	7,661,350	7,657,380	3,970
Fire & Rescue Communications:				
Salaries and Benefits	771,630	771,630	752,511	19,119
Other Operating	197,400	198,300	184,443	13,857
Total Fire & Rescue Communications	969,030	969,930	936,954	32,976
Fire & Rescue Training:				
Salaries and Benefits	392,980	392,980	311,578	81,402
Other Operating	111,500	134,979	107,918	27,061
Total Fire & Rescue Training	504,480	527,959	419,496	108,463
Fire & Rescue Emergency Management:				
Salaries and Benefits	75,120	75,120	76,021	(901)
Other Operating	37,200	37,200	31,939	5,261
Total Fire & Rescue Emergency Management:	112,320	112,320	107,960	4,360
Bureau of Fire Prevention:				
Salaries and Benefits	405,170	405,170	381,815	23,355
Other Operating	50,750	50,750	47,128	3,622
Total Bureau of Fire Protection	455,920	455,920	428,943	26,977
E911 Communications				
Salaries and Benefits	-	-	143,887	(143,887)
Other Operating	-	-	-	-
Total E911 Communications	-	-	143,887	(143,887)

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Expenditures (continued):				
Police Patrol/Communications:				
Police Services/Contract	2,065,810	2,065,810	2,028,082	37,728
Stipend	126,000	126,000	120,721	5,279
Victims' Rights	44,650	44,650	48,599	(3,949)
Beach Services	146,690	146,690	151,952	(5,262)
Total Police Patrol/Communications	2,383,150	2,383,150	2,349,354	33,796
 Total Public Safety	 13,768,260	 13,812,941	 13,766,856	 46,085
 Public Projects & Facilities:				
Administration:				
Salaries and Benefits	194,970	194,970	200,529	(5,559)
Other Operating	11,350	11,350	6,846	4,504
Total Administration	206,320	206,320	207,375	(1,055)
 Engineering:				
Salaries and Benefits	494,440	494,440	489,005	5,435
Other Operating	133,130	138,069	114,060	24,009
Total Engineering	627,570	632,509	603,065	29,444
 Facilities Management:				
Salaries and Benefits	643,850	643,850	620,059	23,791
Other Operating	1,174,660	1,176,017	1,036,935	139,082
Total Facilities Management	1,818,510	1,819,867	1,656,994	162,873
 Total Public Projects & Facilities	 2,652,400	 2,658,696	 2,467,434	 191,262
 Non-Departmental:				
Townwide:				
Insurance	233,450	233,450	228,178	5,272
Postage	32,000	32,000	31,760	240
General Contingency	55,350	55,350	114,780	(59,430)
Postemployment	11,600	15,600	15,010	590
Telephone/Cell Phones/Utilities	271,750	271,750	262,361	9,389
Equipment Maintenance	40,950	40,950	39,711	1,239
Lease Payments	-	-	3,534	(3,534)
Photocopying	9,000	9,000	8,480	520
Courier	13,000	13,000	14,607	(1,607)
Drug Court	38,430	38,430	38,430	-
Recreation Center	570,240	570,240	570,240	-
Recreation Center-Capital	56,375	56,375	46,185	10,190
Low Country Recycling	-	-	993	(993)

TOWN OF HILTON HEAD ISLAND
GENERAL FUND

Schedule 1
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Low Country (Truck Expense)	-	-	324	(324)
Disaster Advertising Reserve Fund	188,000	188,000	13,856	174,144
Hospitality Training & Promotion	90,900	90,900	90,018	882
LTRA Grant	110,000	135,000	151,692	(16,692)
FEMA	25,000	-	-	-
Beaufort County Hazmat	5,000	5,000	37,936	(32,936)
Total Non-Departmental Townwide	1,751,045	1,755,045	1,668,095	86,950
Debt Service:				
Principal	85,000	85,000	82,881	2,119
Interest	15,000	15,000	14,842	158
Total Debt Service	100,000	100,000	97,723	2,277
Capital Outlay				
Management Services :				
Administration-Operations				
Specialized Equipment	191,130	210,057	161,081	48,976
Total Administration-Operations	191,130	210,057	161,081	48,976
Total Management Services	191,130	210,057	161,081	48,976
Public Safety:				
Fire & Rescue Operations:				
Furnishings	26,000	26,000	10,089	15,911
Total Fire & Rescue Operations	26,000	26,000	10,089	15,911
Fire & Rescue Emergency Management:				
Furnishings & Fixtures	4,000	4,000	1,852	2,148
Total Fire & Rescue Emergency Management	4,000	4,000	1,852	2,148
Fire & Rescue Communications				
Furnishings & Fixtures	3,480	3,480	1,004	2,476
Specialized Equipment	9,500	9,500	11,101	(1,601)
Total Fire & Rescue Communications	12,980	12,980	12,105	875
Fire & Rescue Logistics/Maintenance:				
Equipment/Radios	10,000	228,500	183,691	44,809
Specialized Equipment	218,500	-	(34)	34
Total Fire & Rescue Logistics/Maintenance	228,500	228,500	183,657	44,843

TOWN OF HILTON HEAD ISLAND
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

Schedule 1
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	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<u>Expenditures (continued):</u>				
Capital Outlay (continued):				
Public Safety (continued):				
Bureau of Fire Prevention:				
Furnishings & Fixtures	1,000	500	302	198
Specialized Equipment	500	1,000	-	1,000
Total Bureau of Fire Prevention	<u>1,500</u>	<u>1,500</u>	<u>302</u>	<u>1,198</u>
Total Public Safety	<u>272,980</u>	<u>272,980</u>	<u>208,005</u>	<u>64,975</u>
Capital Outlay (continued):				
Non-Departmental Townwide:				
Furniture & Fixtures	<u>7,505</u>	<u>7,505</u>	<u>6,780</u>	<u>725</u>
Total Non-Departmental Townwide	<u>7,505</u>	<u>7,505</u>	<u>6,780</u>	<u>725</u>
Total Capital Outlay	<u>471,615</u>	<u>490,542</u>	<u>375,866</u>	<u>114,676</u>
Total Expenditures	<u>26,115,570</u>	<u>26,214,724</u>	<u>25,257,513</u>	<u>957,211</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(3,072,830)</u>	<u>(3,171,984)</u>	<u>554,777</u>	<u>3,726,761</u>
Other Financing Sources and Uses :				
Transfers In	3,072,830	3,090,330	3,160,783	70,453
Appropriated Fund Balance	<u>-</u>	<u>81,654</u>	<u>-</u>	<u>(81,654)</u>
Total Other Financing Sources	<u>3,072,830</u>	<u>3,171,984</u>	<u>3,160,783</u>	<u>(11,201)</u>
Excess of Revenues & Other Sources				
Over (Under) Expenditures	-	-	3,715,560	3,715,560
Fund Balance - beginning	<u>7,603,794</u>	<u>7,603,794</u>	<u>7,603,794</u>	<u>-</u>
Fund Balance - ending	<u>\$ 7,603,794</u>	<u>\$ 7,603,794</u>	<u>\$ 11,319,354</u>	<u>\$ 3,715,560</u>



Debt Service Funds

The Debt Service Fund account is used for accumulating resources for the payment of interest and principal on general long-term obligation debt.

TOWN OF HILTON HEAD ISLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2005

Schedule 2

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues				
Real and Personal Property Taxes	\$ 4,054,064	\$ 4,029,560	\$ 4,349,527	\$ 319,967
Miscellaneous Revenue	-	447,970	-	(447,970)
Investment Income	125,000	149,500	266,425	116,925
Total revenues	4,179,064	4,627,030	4,615,952	(11,078)
Expenditures				
Current:				
Administrative	10,500	10,500	8,963	1,537
Debt Issue Costs	-	-	533,814	(533,814)
Principal	3,310,000	3,757,970	3,329,999	427,971
Interest	4,924,729	4,924,730	4,583,638	341,092
Total expenditures	8,245,229	8,693,200	8,456,414	236,786
Excess (deficiency) of revenues over (under) expenditures	(4,066,165)	(4,066,170)	(3,840,462)	(225,708)
Other financing sources (uses)				
Premium on Bond Issuance	-	-	860,673	860,673
Payment to Escrow Agent	-	-	(29,632,606)	(29,632,606)
Transfer In	4,066,165	4,066,170	3,065,479	(1,000,691)
Long Term Debt Issued	-	-	29,630,000	29,630,000
Total other financing sources (uses)	4,066,165	4,066,170	3,923,546	(142,624)
Net change in fund balances	\$ -	\$ -	83,084	\$ 83,084
Fund balance - beginning			7,741,731	
Fund balance - ending			\$ 7,824,815	



Capital Projects Funds

The Capital Projects Funds account for all resources used for the acquisition or construction of general fixed assets and major capital improvements other than those financed by proprietary funds and trust funds.

TOWN OF HILTON HEAD ISLAND
CAPITAL PROJECTS FUNDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

Schedule 3
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	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Property Taxes	\$ 1,467,000	\$ 1,467,000	\$ 1,641,952	\$ 174,952
Grants	756,000	756,000	944,425	188,425
Contributions	170,000	170,000	19,000	(151,000)
State Taxes - Sunday Permit Fees	550,000	550,000	280,650	(269,350)
Hospitality Tax	696,000	1,091,860	2,991,110	1,899,250
County Impact Fee - Parks	-	-	91,666	91,666
County Parks Funding	357,000	452,472	106,000	(346,472)
County Stormwater	300,000	394,000	1,480,356	1,086,356
Miscellaneous	5,787,000	8,982,460	108,391	(8,874,069)
Lease	38,000	38,000	67,610	29,610
Investment Income	-	-	417,600	417,600
Total Revenues	10,121,000	13,901,792	8,148,760	(5,753,032)
Expenditures:				
Debt Service:				
Principal	422,000	422,000	326,149	95,851
Interest	-	-	316,261	(316,261)
Fiscal Charges	-	-	11,328	(11,328)
Debt Issue Costs	-	-	52,638	(52,638)
Total Debt Service	422,000	422,000	706,376	(284,376)
Capital Outlay:				
Public Facilities:				
Law Enforcement Center	100,000	100,000	-	100,000
Sewer Installation	100,000	100,000	-	100,000
Fire Station #4 Replacement	-	1,472,637	1,252,030	220,607
Fire & Rescue Dispatch Center	475,000	937,360	673,550	263,810
Dispatch Center Equipment Upgrade	221,000	221,000	-	221,000
Total Public Facilities	896,000	2,830,997	1,925,580	905,417
Park Development:				
Collier Beach Park	300,000	300,000	-	300,000
Chaplin Community Park Upgrade	250,000	250,000	66,322	183,678
Shelter Cove Linear Park	375,000	375,000	1,618	373,382
Yacht Cove Community Park	275,000	275,000	-	275,000
Port Royal Tract Beach Access	410,000	410,000	41,025	368,975
Park Upgrades	320,000	320,000	203,687	116,313
Crossing Park Interpretive Trails	-	25,256	-	25,256
Ferguson Park Community Park	-	137,960	137,960	-
Green's Shell Expansion	-	20,155	20,154	1
Barker Field/Beach Access Ext.	-	758,430	519,762	238,668
Fish Haul Tract Park	-	362,735	362,735	-
Total Park Development	1,930,000	3,234,536	1,353,263	1,881,273

TOWN OF HILTON HEAD ISLAND
CAPITAL PROJECTS FUNDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

Schedule 3
Page 2 of 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Land Acquisition:				
Land Acquisition	470,000	3,235,000	2,923,575	311,425
Total Land Acquisition	470,000	3,235,000	2,923,575	311,425
Beach Maintenance:				
Beach Management	185,000	185,000	102,021	82,979
Beach Renourishment	200,000	837,785	299,368	538,417
Dunes Refurbishment	25,000	25,000	24,912	88
Beach Parks/Access Rehabilitation	75,000	75,000	66,023	8,977
Total Beach Maintenance	485,000	1,122,785	492,324	630,461
Facilities Improvements:				
CDBG Sewer Project	-	-	243,838	(243,838)
Town Hall/Municipal Court Renovations	18,000	18,000	12,814	5,186
County Drop Off Center Replacement	-	95,472	132,558	(37,086)
Cross Island Parkway Landscape	50,000	50,000	49,470	530
Fire & Rescue Maintenance & Training	-	80,000	32,472	47,528
Fire & Rescue Station Renovation	300,000	187,296	320	186,976
Fire Station #5 Replacement	-	125,000	-	125,000
Sea Pines Circle Upgrade	230,000	230,000	162,741	67,259
McKibben Property Wetlands Restoration	100,000	100,000	4,555	95,445
Island Recreation Center - Pool Dome	130,000	130,000	130,000	-
Apparatus/Vehicle Replacement	487,000	510,500	191,148	319,352
Demolition of Structures	425,000	447,821	344,516	103,305
Total Facilities Improvements	1,740,000	1,974,089	1,304,432	669,657
Roadway Improvements:				
Long Cove Lane Extension	100,000	100,000	-	100,000
Horseshoe Road Connector	125,000	125,000	-	125,000
Resurface US 278	100,000	100,000	-	100,000
Coligny Circle Reconfiguration	300,000	300,000	12	299,988
SCDOT Road Resurfacing	512,000	712,000	-	712,000
Town Roads Resurfacing	741,000	766,000	180,908	585,092
Widen and Realign Office Park Road	561,000	561,000	78,307	482,693
Intersection Improvements	1,400,000	1,400,000	5,965	1,394,035
Pedestrian Crosswalks and Refuges	475,000	508,733	16	508,717
Traffic Signal Mast Arms	430,000	480,782	88,024	392,758
Widen Marshland Road/Mathews Drive	310,000	310,000	991	309,009
F&R Emergency Access Points	205,000	246,500	123,003	123,497
Total Roadway Improvements	5,259,000	5,610,015	477,226	5,132,789

TOWN OF HILTON HEAD ISLAND
CAPITAL PROJECTS FUNDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

Schedule 3
Page 3 of 3

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Pathways:				
Pathway Rehabilitation	50,000	50,000	48,595	1,405
Mathews Drive	268,000	268,000	46,011	221,989
Marshland Road	638,000	638,000	637,659	341
Spanish Wells Road	1,227,000	1,227,000	425,147	801,853
Pope Avenue	190,000	190,000	47,559	142,441
Palmetto Bay Road	95,000	95,000	8,393	86,607
US 278 South Side	110,000	110,000	-	110,000
Wild Horse Road	214,000	214,000	143,267	70,733
Muddy Creek Road	-	16,969	17,089	(120)
Total Pathway Improvements	2,792,000	2,808,969	1,373,720	1,435,249
Drainage Improvements:				
Drainage System Rehabilitation	300,000	300,000	185,629	114,371
Squire Pope Pathway	120,000	120,000	-	120,000
North Forest Beach	1,000,000	1,129,472	1,163,382	(33,910)
Folly Field	-	155,268	223,090	(67,822)
Northridge	405,000	421,634	6,396	415,238
Ashmore Tract Ditch	-	245,937	241,437	4,500
Beach City Road/Airport	385,000	385,000	4,040	380,960
Marshland Road/US 278	580,000	580,000	252,480	327,520
Spanish Wells Road	540,000	540,000	34,035	505,965
Club Course Outfall	212,000	212,000	16	211,984
Total Drainage Improvements	3,542,000	4,089,311	2,110,505	1,978,806
Total Capital Outlay	17,114,000	24,905,702	11,960,625	12,945,077
Total Expenditures	17,536,000	25,327,702	12,667,001	12,660,701
Excess of Revenues Over (Under) Expenditures	(7,415,000)	(11,425,910)	(4,518,241)	6,907,669
Other Financing Sources/ (Uses):				
Payments to Escrow Agent	-	-	(1,450,329)	(1,450,329)
Transfers In	7,415,000	11,425,910	4,793,426	(6,632,484)
Transfers Out	-	-	(2,160,710)	(2,160,710)
Long Term Debt Issued	-	-	1,055,000	1,055,000
Total Other Financing Sources(Uses)	7,415,000	11,425,910	2,237,387	(9,188,523)
Excess of Revenue and Other Sources Over Expenditures	\$ -	\$ -	(2,280,854)	\$ (2,280,854)
Fund Balance - beginning			33,285,200	
Fund Balance - ending			\$ 31,004,346	



Nonmajor Governmental Funds Special Revenue Funds

Special Revenue Funds - This account is for revenues derived from special sources which are restricted by law or policy to finance specific activities.

1. **Impact Fees** - This fund is used to account for street improvement fees from new development within the Town. Fees finance the necessary street capital improvements generated by the development and transportation studies.
2. **Community Development Block Grant** - This fund provides for the Muddy Creek Sewer Project.
3. **Home Grant** - Homeownership Assistance Program provides a no-interest, ten-year deferred loan to prospective, income-qualified homebuyers to meet down payment and closing cost requirements.
4. **Palmetto Electric Franchise Fees** - This fund is used to account for franchise fees paid by Palmetto Electric Cooperative, Inc. These funds will be utilized to offset costs associated with the undergrounding (placement underground) of all existing and future non-transmission lines owned by Palmetto Electric pursuant to the terms and conditions of the Franchise Agreement and related Underground Service Agreement between the Town and Palmetto Electric.

TOWN OF HILTON HEAD ISLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

Schedule 4

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Impact Fees	Palmetto Electric	Community Development Block Grant	Home Grant		
ASSETS:						
Cash	\$ -	\$ 223,139	\$ -	\$ -	\$ -	223,139
Investments	-	-	-	-	-	-
Due from Other Funds	59,128	-	-	-	-	59,128
Due from Other Governments	-	-	-	-	-	-
Restricted Assets:						
Cash	-	-	-	22,442	-	22,442
Total assets	\$ 59,128	\$ 223,139	\$ -	\$ 22,442	\$ -	\$ 304,709
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ -	\$ 271,278	\$ -	\$ -	\$ -	271,278
Due to Other Funds	59,128	-	-	-	-	59,128
Due to Palmetto Electric	-	-	-	-	-	-
Deferred Revenue	-	-	-	22,274	-	22,274
Payable to Hilton Head Chamber of Commerce Visitor and Convention Bureau	-	-	-	-	-	-
Total liabilities	\$ 59,128	\$ 271,278	\$ -	\$ 22,274	\$ -	\$ 352,680
Fund balances:						
Reserved:						
Encumbrances	-	-	-	-	-	-
Unreserved:						
Undesignated	-	(48,139)	-	168	-	(47,971)
Total fund balances	-	(48,139)	-	168	-	(47,971)
Total liabilities and fund balances	\$ 59,128	\$ 223,139	\$ -	\$ 22,442	\$ -	\$ 304,709

TOWN OF HILTON HEAD ISLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

Schedule 5

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Impact Fees	Palmetto Electric	Community Development Block Grant	Home Grant	
Revenues					
Electric Franchise Fee	-	1,177,317	-	-	1,177,317
Impact Fees	527,843	-	-	-	527,843
Investment Income	-	12	141	24	177
Total revenues	527,843	1,177,329	141	24	1,705,337
Expenditures					
Current:					
Administrative	-	1,217,834	1,227	-	1,219,061
Total expenditures	-	1,217,834	1,227	-	1,219,061
Excess (deficiency) of revenues over (under) expenditures	527,843	(40,505)	(1,086)	24	486,276
Other financing sources (uses)					
Transfers Out	(698,646)	(7,634)	-	-	(706,280)
Total other financing sources (uses)	(698,646)	(7,634)	-	-	(706,280)
Net change in fund balances	(170,803)	(48,139)	(1,086)	24	(220,004)
Fund balance - beginning	170,803	-	1,086	145	172,034
Fund balance - ending	-	(48,139)	-	169	(47,970)



Statistical Section (Unaudited)

Table 1

Town of Hilton Head Island, South Carolina
Government-wide Expenses by Function
Last Ten Fiscal Years ⁽¹⁾
(amounts expressed in thousands)

Fiscal Year	General Government	Management Services	Planning/ Building & Fire Codes	Public Projects and Facilities		Non-Departmental	Accommodations Tax Grants		Visitor and Convention Bureau	Interest on Long-Term Debt		Capital Outlay	Total
				Public Safety						Admin.			
2003	\$ 1,377	\$ 2,929	\$ 2,276	\$ 13,874	\$ 3,254	\$ 1,754	\$ 1,198	\$ 937	\$ 363	\$ 4,611	\$ -	\$ 32,573	
2004	1,430	3,243	2,372	14,754	5,872	1,715	985	941	823	4,321	-	36,456	
2005	1,394	3,268	2,495	14,708	4,550	1,668	1,318	990	1,297	5,420	811	37,919	

Source: Town of Hilton Head Island, Finance Department

⁽¹⁾ The fiscal years beginning 2003 are reflected for compliance to Governmental Accounting Standards (GASB) Statement No. 34. Prior year data not available.

Table 2

Town of Hilton Head Island, South Carolina
Government-wide Revenues
Last Ten Fiscal Years ⁽¹⁾
(amounts expressed in thousands)

Fiscal Year *	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Inter-governmental	Investment Earnings	Miscellaneous	Total
2003	\$ 15,708	\$ 269	\$ 359	\$ 22,631	\$ 1,145	\$ 659	\$ 2,015	\$ 42,786
2004	19,008	302	1,104	23,546	1,108	561	1,698	\$ 47,327
2005	22,980	155	944	29,908	1,198	1,203	2,084	\$ 58,472

Source: Town of Hilton Head Island, Finance Department

⁽¹⁾ The fiscal years beginning 2003 are reflected for compliance to Governmental Accounting Standards (GASB) Statement No. 34. Prior year data not available.

Table 3

Town of Hilton Head Island, South Carolina
General Governmental Expenditures by Function ⁽¹⁾
Last Ten Fiscal Years

Fiscal Year Ending June 30,	General Govt.	General Govt. % of Total	Public Safety	Public Safety % of Total	Community and Environment	Community & Environ. % of Total	Non-Departmental	Non-Departmental % of Total	Total
1996	\$ 2,304,745	15.84%	\$ 8,501,321	58.43%	\$ 2,713,196	18.65%	\$ 1,030,710	7.08%	\$ 14,549,972
1997	2,694,326	16.84%	9,247,246	57.80%	3,000,593	18.76%	1,055,561	6.60%	15,997,726
1998	3,157,064	17.30%	10,475,653	57.42%	3,418,796	18.74%	1,193,646	6.54%	18,245,159
1999	3,136,529	16.73%	10,603,458	56.55%	3,851,415	20.54%	1,158,823	6.18%	18,750,225
2000	3,379,466	16.56%	11,275,893	55.25%	4,050,867	19.85%	1,703,472	8.35%	20,409,698
2001	3,669,434	17.63%	11,413,494	54.84%	4,194,672	20.15%	1,535,598	7.38%	20,813,198
2002	3,975,104	18.23%	11,969,539	54.90%	4,285,897	19.66%	1,571,311	7.21%	21,801,851
2003	4,082,813	17.87%	12,602,916	55.17%	4,451,258	19.49%	1,705,016	7.46%	22,842,003
2004	4,350,043	18.29%	13,071,431	54.95%	4,649,064	19.54%	1,716,185	7.21%	23,786,723
2005	4,561,246	18.06%	14,072,584	55.72%	4,948,808	19.59%	1,674,875	6.63%	25,257,513

Source: Town of Hilton Head Island, Finance Department

⁽¹⁾ General Fund Only

Table 4

Town of Hilton Head Island, South Carolina
General Governmental Revenues by Source ⁽¹⁾
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Real & Personal Property Taxes		Property Tax % of Total		Licenses		Permits		Revenues From Use Of Money & Property		Use % of Total		State Shared Revenues		Other Agencies % of Total		Grants and Other Revenues		Misc. % of Total		Total
	\$			%	\$	%	\$	%	\$	%		%	\$	%		%	\$	%		%	
1996	\$ 8,478,909		56.69%		\$ 3,324,079	22.23%	\$ 958,415	6.41%	\$ 202,867	1.36%			\$ 541,395	3.62%			\$ 1,449,711	9.69%			\$ 14,955,376
1997	7,446,094		51.97%		3,776,361	26.36%	891,787	6.22%	209,754	1.46%			704,561	4.92%			1,298,962	9.07%			14,327,519
1998	6,924,030		43.82%		4,087,192	25.87%	1,260,872	7.98%	248,815	1.57%			713,990	4.52%			2,565,043	16.23%			15,799,942
1999	7,350,605		40.59%		4,659,110	25.73%	1,861,397	10.28%	169,724	0.94%			758,189	4.19%			3,311,839	18.29%			18,110,864
2000	8,203,954		41.87%		5,041,494	25.73%	1,389,102	7.09%	266,229	1.36%			797,247	4.07%			3,895,520	19.88%			19,593,546
2001	8,528,034		40.85%		6,158,237	29.50%	1,434,087	6.87%	304,831	1.46%			851,870	4.08%			3,599,178	17.24%			20,876,237
2002	8,683,555		42.04%		5,910,918	28.61%	1,425,010	6.90%	228,287	1.11%			893,049	4.32%			3,516,352	17.02%			20,657,171
2003	9,285,943		43.59%		6,214,543	29.24%	1,121,066	5.27%	103,207	0.49%			872,768	4.11%			3,677,169	17.30%			21,254,696
2004	10,366,446		44.54%		6,722,382	28.88%	1,263,023	5.43%	91,674	0.39%			880,365	3.78%			3,949,297	16.97%			23,273,187
2005	11,833,517		45.84%		7,261,596	28.13%	1,663,283	6.44%	135,853	0.53%			916,929	3.55%			4,001,112	15.50%			25,812,290

Source: Town of Hilton Head Island, Finance Department

⁽¹⁾ General Fund Only

Table 5

Town of Hilton Head Island, South Carolina
Property Tax Levies & Collections
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Total Tax Levy	Collection of Current Year's Taxes During Current Period	Percent of Levy Collected	Delinquent Tax Collections of Taxes Levied for Prior Years	Total Tax Collections	Percent of Total Collections to Tax Levy
1995	\$ 11,485,635	\$ 11,468,412	99.85%	\$ 30,412	\$ 11,498,824	100.11%
1996	11,936,073	11,924,684	99.90%	30,256	11,954,940	100.16%
1997	12,503,106	12,430,737	99.42%	11,724	12,442,461	99.51%
1998	13,427,851	12,941,343	96.38%	29,497	12,970,840	96.60%
1999	13,831,658	13,715,875	99.16%	84,510	13,800,385	99.77%
2000	14,765,582	14,393,034	97.48%	155,780	14,548,814	98.53%
2001	15,076,350	14,922,100	98.98%	11,966	15,034,066	99.72%
2002	15,512,366	15,252,669	98.33%	96,341	15,349,010	99.53%
2003	15,927,626	15,781,384	99.08%	511,788	16,293,172	102.30%
2004	21,975,474	20,865,069	94.95%	737,480	21,602,549	98.30%

Source: Beaufort County Treasurer's Office

NOTE: All Town of Hilton Head Island Property Taxes are billed, collected, and revenue forwarded to the Town by Beaufort County.

Town of Hilton Head Island, South Carolina
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Tax Year	Real & Personal		Motor Vehicles		Total Value		Ratio of Total Assessed to Total Estimated Actual Value
		Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1996	1995	\$ 250,794,305	\$ 4,441,319,414	\$ 27,308,244	\$ 260,078,514	\$ 278,102,549	\$ 4,701,397,928	5.92%
1997	1996	256,259,235	4,530,025,184	31,826,909	303,113,419	288,086,144	4,833,138,603	5.96%
1998	1997	267,318,669	4,707,449,599	33,375,935	317,866,048	300,694,604	5,025,315,647	5.98%
*1999	1998	409,842,868	7,260,162,881	30,414,552	289,662,400	440,257,420	7,549,825,281	5.83%
2000	1999	417,384,447	7,368,592,517	36,112,524	343,928,800	453,496,971	7,712,521,317	5.88%
2001	2000	414,929,945	7,369,291,366	41,163,671	392,034,962	456,093,616	7,761,326,328	5.88%
2002	2001	435,389,649	7,735,366,110	40,250,382	383,336,971	475,640,031	8,118,703,081	5.86%
2003	2002	439,452,362	7,865,358,172	38,477,857	366,455,781	477,930,219	8,231,813,953	5.81%
2004	2003	454,685,211	8,025,375,587	40,344,252	504,303,150	495,029,463	8,529,678,737	5.80%
2005	2004*	771,019,706		40,432,317		811,452,023	-	

Source: Beaufort County Assessor's Office

*Property tax reassessment; appeals pending.

Note: The 1977 Act passed by the South Carolina General Assembly provides for statewide uniform assessment ratios of 10.5% for manufacturers, furniture and fixtures and autos, 6% for inventory and either 6% or 4% for real property.

Table 7

Town of Hilton Head Island, South Carolina
Property Tax Millage Rates of Direct and Overlapping Governmental Jurisdictions
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Tax Year	County Public Schools	County Operations	Public Service Districts ⁽¹⁾ (Sewer & Water)	(Range)	Special Purpose & Fire Districts	Town Operations	Total Millage
1996	1995	127.40	66.40	9.50	9 to 10	22.20	41.25	266.75
1997	1996	126.80	64.00	8.25	6.5 to 10	22.20	41.25	262.50
1998	1997	128.60	63.80	8	6 to 10	17.35	41.25	259.00
1999	1998	99.50	51.10	7.50	5 to 10	7.20	30.50	195.80
2000	1999	108.40	58.30	7.50	5 to 10	7.20	30.50	211.90
2001	2000	119.80	58.10	7.50	5 to 10	7.20	30.50	223.10
2002	2001	119.80	56.60	7.50	5 to 10	6.50	31.00	221.40
2003	2002	129.20	60.00	7.50	5 to 10	0.00	31.00	227.70
2004	2003	130.40	64.00	7.50	5 to 10	0.00	31.00	232.90
2005	2004	94.20	48.60	7.05	4.1 to 10	0.00	22.30 ⁽²⁾	172.15

⁽¹⁾ Water and sewage services are provided to the Town by Public Service Districts.

The numbers reported herein represent an average of the millage charges from the various providers.

Service is on a fee-for-usage basis. The providers and district served are:

- Hilton Head Number 1 Public Service District.
- Broad Creek Public Service District.
- South Island Public Service District.

⁽²⁾ The Town's millage includes 14.8 Operations, 5.5 Capital Projects, and 2.0 Debt Service.

Table 8

Town of Hilton Head Island, South Carolina
Principal Taxpayers
June 30, 2005

Taxpayer	Type of Business	2004 Assessed Valuation	Percentage of Total Assessed Valuation
Marriott Ownership Resort	Property Management	\$ 18,596,684	2.29%
Palmetto Electric Co-op	Utility - Electric	6,566,274	0.81%
Dune Hotel Associates	Property Management	3,885,920	0.48%
SCG Hilton Head Property LLC	Property Management	3,678,552	0.45%
Greenwood Development	Property Management	8,934,326	1.10%
Sea Pines Plantation	Property Management	3,406,337	0.42%
Smith Lynn Press		3,155,440	0.39%
M&M Multi Services	Cleaning Services	2,504,230	0.31%
Renwar Industries Inc.		2,524,600	0.31%
Atlantic Industries Ltd.		2,097,330	0.26%
Total Taxable Assessed Value of 10 Largest Taxpayers		55,349,693	6.82%
Total Taxable Assessed Value of Other Taxpayers		756,102,330	93.18%
Total Taxable Assessed Value All Taxpayers ⁽¹⁾		\$ 811,452,023	100.00%

Source: Beaufort County

⁽¹⁾ From Table 6 of this statistical section

Town of Hilton Head Island, South Carolina
Computation of Legal Debt Margin
June 30, 2005

Assessed Value as of December 31, 2004			\$ 811,452,023
Debt Limit - Eight (8%) Percent of Assessed Value, without voter's approval			\$ 64,916,162
Amount of Debt Applicable to Debt Limit:			
General Obligation Bonds	1996A	\$ 800,000	
	1996B	4,705,000	
	1998B	650,000	
	1999B	5,835,000	
	2004B	5,365,000	
Total Amount Applicable to Debt Limit			17,355,000
Legal Debt Margin without a Referendum			\$ 47,561,162

Note: Article Ten (X), Section Fourteen (14), of the South Carolina Constitution of 1895 as amended provides that a City or Town shall incur General Obligation Debt over the eight percent (8%) limit when approved by a majority vote of the qualified electors of the political subdivision voting in a referendum authorized by law. There shall be no conditions or restrictions limiting the incurring of such indebtedness except:

- a. Those restrictions and limitations imposed in the authorization to incur such indebtedness;
- b. The provisions of Article Ten (X), Section 14; and
- c. Such general obligation debt shall be issued within five (5) years of the date of such referendum and shall mature within forty (40) years from the time such indebtedness shall be incurred.

Table 10

Town of Hilton Head Island, South Carolina
 Computation of Direct and Overlapping Bonded Debt
 General Obligation Bonds
 June 30, 2005

Jurisdiction	Net General Obligation Bonded Debt Outstanding	Percentage Applicable to Town of Hilton Head Island ⁽²⁾	Amount Applicable to Town of Hilton Head Island
Beaufort County School District	\$ 238,835,000	54%	\$ 128,970,900
Beaufort County	106,175,000	54%	57,334,500
Town of Hilton Head Island	74,705,000	100%	74,705,000
Broad Creek Public Service District	6,400,000	100%	6,400,000
Hilton Head No. 1 Public Service District	530,000	100%	530,000
South Beach ⁽¹⁾	<u>490,000</u>	100%	<u>490,000</u>
TOTAL	\$ <u>427,135,000</u>		\$ <u>268,430,400</u>

Source: Beaufort County

⁽¹⁾ Debt Service for the Sea Pines Forest Beach Public Service District general obligation bonds is paid from water and sewer system revenues.

⁽²⁾ Percentage calculated based on Town's total assessed value from Table 6.

Table 11

Town of Hilton Head Island, South Carolina
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Population ⁽¹⁾	Assessed Value ⁽²⁾	Gross General Bonded Debt	Exempt From Debt Limit	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1996	30,340	\$ 278,102,549	\$ 10,395,000	\$ -	\$ 10,395,000	3.74%	\$ 343
1997	31,141	288,086,144	12,855,000	-	12,855,000	4.46%	413
1998	31,452	300,694,604	31,880,000	15,000,000	16,880,000	5.61%	1,014
1999	31,767	440,257,420	50,770,000	26,750,000	24,020,000	5.46%	1,598
2000	33,862	453,496,971	49,155,000	27,000,000	22,155,000	4.89%	1,536
2001	34,001	456,093,616	67,350,000	47,000,000	20,350,000	4.46%	1,989
2002	34,531	475,640,031	65,160,000	45,780,000	19,380,000	4.07%	1,863
2003	34,499	477,930,219	63,730,000	44,470,000	19,260,000	4.03%	1,790
2004	34,371	495,029,463	76,285,000	58,085,000	18,200,000	3.68%	2,219
2005	35,600	811,452,023	74,705,000	57,350,000	17,355,000	2.14%	2,098

⁽¹⁾ Source: U.S. Census Bureau Yearly Population Estimates (2005 Estimate provided by Town of Hilton Head Island)

⁽²⁾ Source: Table 6 of this statistical section

Table 12

Town of Hilton Head Island, South Carolina
Ratio of Annual Debt Service Expenditures for General Bonded Debt
to Total General Governmental Expenditures
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service	Total General Governmental Expenditures ⁽¹⁾	Ratio of Debt Service to Total General Expenditures
1996	\$ 675,515	\$ 571,957	\$ 1,247,472	\$ 14,549,972	8.57%
1997	1,065,000	1,322,282	2,387,282	15,997,726	14.92%
1998	880,000	947,078	1,827,078	18,245,159	10.01%
1999	725,000	1,874,512	2,599,512	18,750,225	13.86%
2000	2,020,000 ⁽²⁾	2,731,740	4,751,740	20,813,198	22.83%
2001	925,000	2,604,400	3,529,400	20,813,198	16.96%
2002	2,190,000	3,526,935	5,716,935	21,801,851	26.22%
2003	2,400,000	3,406,860	5,806,860	22,842,003	25.42%
2004	6,975,000 ⁽³⁾	3,305,057	10,280,057	23,786,723	43.22%
2005	3,460,000	5,231,409	8,691,409	25,257,513	34.41%

(1) Source: Table 3 of this statistical section

(2) Note: Includes the repayment of a \$1,140,000 Bond Anticipation Note

(3) Note: Includes the repayment of a \$4,530,000 Bond Anticipation Note

Table 13

Town of Hilton Head Island, South Carolina
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Population ⁽¹⁾		Per Capita Personal Income ⁽²⁾	Median Age ⁽¹⁾	Unemployment Rate ⁽³⁾
1996	30,340	\$	24,571	44.5	1.9
1997	31,141		26,088	45.0	1.4
1998	31,452		27,733	45.0	1.2
1999	31,767		29,243	45.5	1.3
2000	33,862		30,310	46.0	1.2
2001	34,001		31,770	46.0	1.4
2002	34,531		32,121	46.0	1.6
2003	34,499		32,700	46.0	1.7
2004	34,371		33,235	46.0	1.9
2005 ⁽⁴⁾	35,600		33,700	46.5	2.2

⁽¹⁾ Source: U.S. Census Bureau, Population Division

⁽²⁾ Source: U.S. Department of Commerce, Bureau of Economic Analysis

⁽³⁾ Source: U.S. Department of Labor, Bureau of Labor Statistics Data

⁽⁴⁾ 2005 estimates provided by Town of Hilton Head Island Planning Department

Population
Last Eight Census Reports (1)

Census Year	Town(2)	Percent Change	Beaufort County (3)	Percent Change	State of South Carolina (3)	Percent Change	United States(4)	Percent Change
1950	N/A		26,993	0%	2,117,027	0%	152,271,000	0%
1960	N/A		44,187	63.70%	2,382,594	12.54%	180,671,000	18.65%
1970	N/A		51,136	15.73%	2,590,713	8.73%	205,052,000	13.49%
1980	11,344	0.00%	65,364	27.82%	3,121,820	20.50%	227,757,000	11.07%
1985	17,622	55.34%	80,400	23.00%	3,333,000	6.76%	239,283,000	5.06%
1990	23,694	34.46%	86,425	7.49%	3,486,703	4.61%	248,709,873	3.94%
1995	28,800	21.55%	99,800	15.48%	3,673,000	5.34%	262,755,000	5.65%
2000	33,862	17.58%	120,937	21.18%	4,012,012	9.23%	281,421,906	7.10%

(1) 1990, 1995, and 2000 Census figures reported are from U.S. Bureau of Census

(2) Town not incorporated until 1983. Figures from U.S. Bureau of Census

(3) Source: South Carolina Statistical Abstract

(4) Source: Statistical Abstract of the United States, U.S. Bureau of Census except 1990 figures (see note 1)

Table 14

Town of Hilton Head Island, South Carolina
Property Values, Construction, & Bank Deposits
Last Ten Fiscal Years

Fiscal Year	Property Value ⁽¹⁾ Assessed Value Real & Personal	Single Family Dwellings ⁽²⁾		Construction Multi-Family Dwellings ⁽²⁾		Commercial ⁽²⁾		Bank Deposits ⁽³⁾ Stated in Thousands
		Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	
1996	\$ 250,794,305	440	\$ 95,779,767	15	\$ 21,421,380	34	\$ 15,033,550	\$ 648,126
1997	256,259,235	436	106,641,815	19	19,301,400	41	10,823,693	647,871
1998	267,318,669	430	114,706,668	13	24,034,292	42	12,143,223	710,458
1999	409,842,868	516	135,870,877	74	71,938,989	53	26,759,161	789,619
2000	417,384,447	416	140,348,609	42	60,111,440	60	23,625,126	963,835
2001	414,929,945	401	144,135,354	25	56,767,978	29	7,739,004	1,208,147
2002	435,389,649	412	159,139,812	9	21,711,991	28	7,273,489	1,237,344
2003	439,452,362	295	127,470,254	11	21,772,830	30	11,449,836	1,374,600
2004	454,685,211	313	140,989,234	8	25,807,440	40	20,651,573	1,321,598
2005	771,019,706	373	159,998,632	4	12,831,305	21	9,294,579	1,561,980

⁽¹⁾ Source: Table 6 of this statistical section

⁽²⁾ Source: Town of Hilton Head Island, Department of Building & Fire Codes

⁽³⁾ Source: Table 15 of this statistical section (FDIC - Federal Deposit Insurance Corporation)

Town of Hilton Head Island, South Carolina
Deposits at Local Banks and Savings and Loan Institutions
(Amounts Stated in Thousands)

Deposits Reported As Of June 30,	Bank & S&L Deposits		
	Town of Hilton Hd Isl.	Beaufort County	% Deposits From Town
1996	\$ 648,126	\$ 1,065,428	60.83%
1997	647,871	1,108,209	58.46%
1998	710,458	1,214,611	58.49%
1999	789,619	1,326,364	59.53%
2000	963,835	1,529,473	63.02%
2001	1,208,147	1,832,106	65.94%
2002	1,237,344	2,091,262	59.17%
2003	1,374,600	2,287,380	60.09%
2004	1,321,598	2,362,717	55.94%
2005	1,561,980	2,782,813	56.13%

Source: 1995-1997 National Bank of South Carolina,
"County Market Share Analysis"
1998-2005 FDIC Market Share Report

Town of Hilton Head Island, South Carolina

Miscellaneous Statistics

General Statistics

Date of Incorporation:	May 18, 1983
Form of Government:	Council /Manager
Number of Employees	
Full-Time	239
Part-Time	4
Town Area:	54 Square Miles
Miles of Beach on Atlantic Ocean	13
Number of Traffic Lights:	22

Recreation and Culture

Golf Courses (non-municipal) in Town Limits:	25
Public Tennis Clubs:	7
Tennis Courts Public & Private:	382

Public Recreation Facilities

Active Recreation:	3
Beach Access/Parks:	7
Pools:	1
Number of Libraries:	2
Museums:	1
Nature Preserves:	3
Marinas:	10
Arts Centers:	1

Tourism

Peak Summer Month Population:	258,696
Total Annual Visitors:	2.5 million
Annual Visitor Expenditures:	\$1.5 billion

Permits Issued in FY 2005

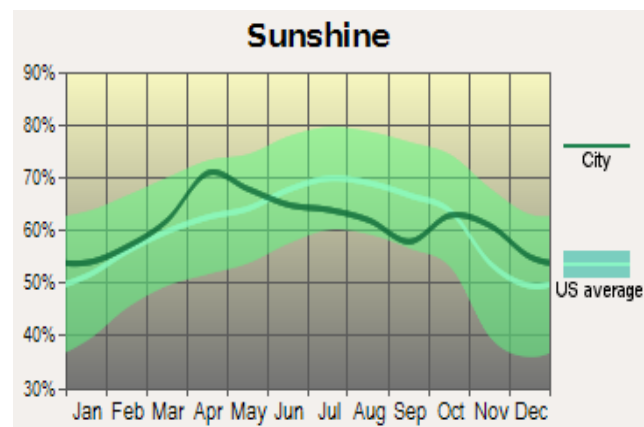
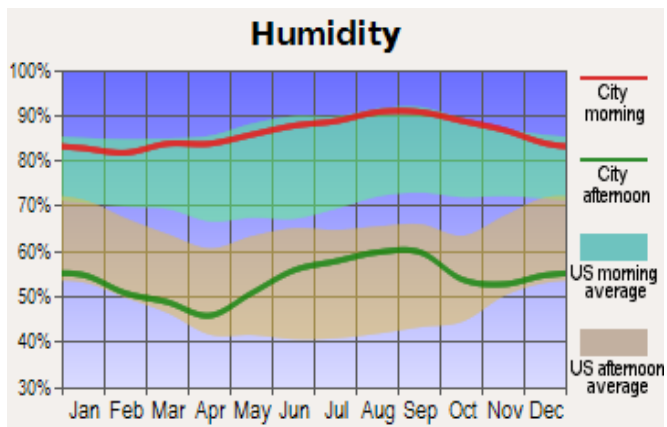
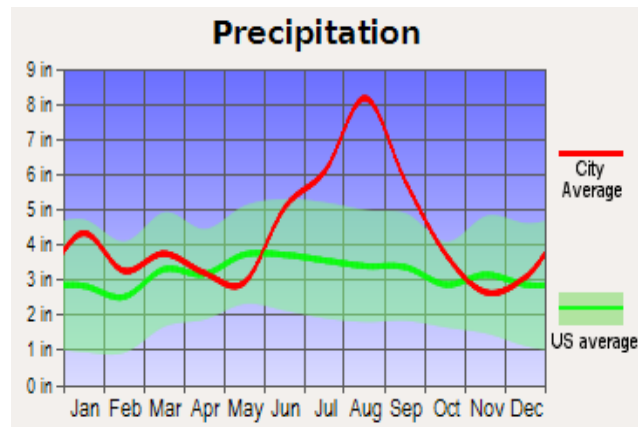
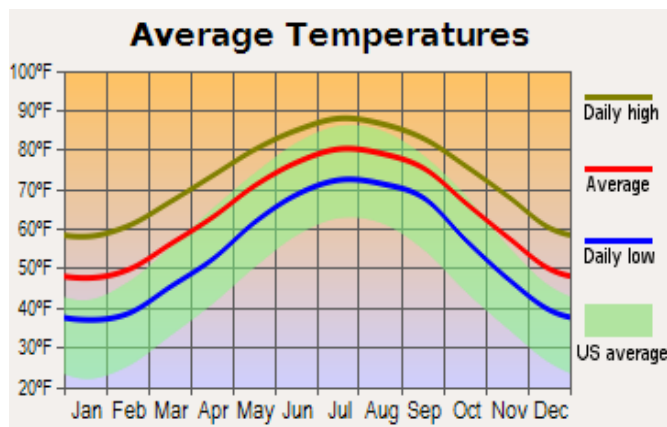
Building Permits:	398
Miscellaneous Permits:	3,244
Inspections:	20,794

Employment Fast Facts

- Hilton Head Island's economy is primarily tourism and real estate driven.
- Approximately 61% of all island jobs are related to tourism.
- Presently, there are more than 600 real estate executives employed on the island.
- Approximately 43% of the 4,000 licensed island enterprises are retail and service-oriented companies.
- Hilton Head Island has more than 40 shopping areas and more than 250 restaurants.

Industries Providing Employment

Arts, entertainment, recreation, accommodation, food service:	19%
Retail trade:	13%
Professional, scientific, management, administrative, & waste management services:	12%
Educational, health and social services:	12%
Finance, insurance, real estate, and rental/leasing:	11%





Supplemental Financial Information

THE TOWN OF HILTON HEAD ISLAND

Schedule of Municipal Fines, Assessments and Surcharges

Year Ended June 30, 2005

Court fines

Court fines collected	\$ 294,558
Court fines retained by the Town	<u>294,558</u>
Court fines remitted to State Treasurer	<u>\$ -</u>

Court assessments

Court assessments collected	\$ 322,270
Court assessments retained by the Town	<u>35,354</u>
Court assessments remitted to State Treasurer	<u>\$ 286,916</u>

Court surcharges

Court surcharges collected	\$ 127,164
Court surcharges retained by the Town	<u>13,435</u>
Court surcharges remitted to State Treasurer	<u>\$ 113,729</u>

Victims services

Court assessments allocated to victims services	\$ 35,354
Victim services expenditures	<u>(48,599)</u>
Funds available for carryforward	<u>\$ (13,245)</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of Town Council
Town of Hilton Head Island
Hilton Head Island, South Carolina

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Town of Hilton Head Island, South Carolina (the "Town"), as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable Mayor and Members of Town Council
Town of Hilton Head Island
Hilton Head Island, South Carolina
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This report is intended for the information and use of the mayor, members of town council and management and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Beaufort, South Carolina
November 30, 2005